Manufacturing

Wool Spinners pushes exports, but shears staff back

by Allan Parker

PRIME Minister Rob Muldoon has promised the nation, already adjusting to record unemployment, that his big resource development projects over the next decade will mean more jobs.

The theory is simple: exports mean employment. Thus the "Think Big" programme Muldoon and his Cabinet colleagues are telling the public, will provide some 161 jobs for each $1 million net foreign exchange earnings — or some 160,000 new jobs by the end of the decade.

Added to predicted export growth from both the farming and factory sectors, total job creation by 1990 will be over 400,000, according to Government reckoning.

So the recent news that a Dannevirke natural resource processor had been forced to sack about a third of its workforce at the same time it was announcing a virtual doubling of exports has been met with more than passing interest.

Such an apparent anomoly is even more curious considering the operation combines three elements that make it a prime developmental industry for the New Zealand economy: added value to home-grown raw materials, regional development and export earnings.

Yet for New Zealand Wool Spinners Ltd the more-exports-means-more-jobs bubble bursts on the tempered needle of profitability.

The rise and fall has taken just eight years — but the company believes the heady hopes of establishment days in the early 1970's can be recaptured by the fundamental restructuring it has undergone.

In 1973, the shareholding mix was a potent stimulant for a small town facing a predicted population shrinkage and economic obscurity.

The farmers would provide the wool to turn into carpet yarn, the townsfolk would provide the labour, textile industry interests would provide the technical and managerial skills, the Development Finance Corporation would provide money.

Indeed, Dannevirke pride in what is still the town's largest employer, despite the recent redundancies, has remained strong since the plant was opened by Warren Freer at the end of 1975.

But even then the trend that was to result in this month's redundancy notices had begun to reshape the industry.

Throughout the past decade, there has been substantial investment into adding value to the base material, wool, by converting it to yarn.

Feltex and UEB, for instance, have made considerable commitments to the process. And a number of independent operators have competed side-by-side.

But the capital-intensive nature of the industry means plant must operate as close as possible to maximum capacity before loss becomes break-even and profit.

Short-run production for a wide variety of customers means inefficiencies for yarn spinners. Thus many of the smaller independent operators merged with, or were taken over by, the carpet manufacturers who controlled their production, anyway.

The vertical integration with the carpet-makers rids the yarn spinner of the vulnerability inherent in reliance on customers who use them virtually to top up the shortfall from their own spinning operations.

One by one over recent years, then, the independent spinners have been swallowed up by the carpet manufacturing industry — except New Zealand Wool Spinners, which has remained an independent operator but has seen its local market share fall to only 20 per cent of output, used mainly as a marginal supplier by the New Zealand industry.

The company tried to rectify the situation by buying 25 per cent of the Australia carpet manufacturer Bond Worth Holdings (Australia) Pty Ltd of Melbourne.

The Australian company, which makes high quality wool-rich carpets is described by its New Zealand shareholder as "an important force" in the Australian carpet industry.

It is certainly an important force in the Wool Spinners operation, taking some $1 million worth of Dannevirke yarn over the past five years.

To strengthen that connection, the New Zealand company has recently upped its holding in Bond Worth Holdings from 25 to 80 per cent, a move announced at the same time the New Zealand company was reporting a doubling of exports and a shedding of staff.

The board hopes its strong presence in the Australian market will off-set its loss of markets in New Zealand.

Damage to the local company has been particularly marked since 1978, when a second-stage plant came on stream.

According to chairman W. Dew the increased production "did not find a ready market and, as a result, uneconomic orders were accepted to keep the plant working a three-shift five-day week".

The company thus became caught in a classic double-bind: falling market and high overheads.

The decision to buy control of the Australian operation was taken to resolve the first problem, but the company was still left with an embarrassingly high labour force.

Yet its dominant presence in the local economy made redundancy decisions difficult. In March 1980, for example, the company employed 167 people and paid out $1.35 million in wages and salaries during the financial year. Goods and services cost the company another $500,000 in the same period.

Clearly, any decision to reduce overheads by reducing the labour force would have a significant effect on the town and surrounding farmlands, just as closures in other towns like Shannon and Masterton have disrupted lives.

Finally, profitability made the decision for the directors. Better to lose 50 jobs than 150 and, by reducing costs and linking with the Australian operation, the board hopes the improved efficiency will make the staff reduction temporary.

Another consideration was the continued inability to give the original investors a return.

Says Dew: "After having shares in the company for six or eight years some financial return is overdue to shareholders.

"The company belongs to the shareholders and they made this project possible."

Volume 12 No.19 (Issue 432) May 25, 1981 ISSN—0110—6813

NEW ZEALAND'S NATIONAL WEEKLY OF BUSINESS, POLITICS AND ECONOMICS

NATIONAL BUSINESS REVIEW

Incorporating Admark

80 cents

Inside

Oil explorers race to be first with share floats

by Klaus Sorensen and Warren Berryman

AT least two oil exploration companies are planning to make public share floats on the sharemarket in the next few months.

Following the Government's announcement of a $500 million oil exploration programme two weeks ago, two successful licence-holders, Stewart Petroleum and Cue Consolidated Ltd, have begun looking at public floats, to raise money for the massively expensive exploration programmes.

NBR understands Cue has been having talks with Wellington broker Jarden and Co, while Stewart — in which the listed miner Mineral Resources is a shareholder — has been holding talks with Wellington's Renouf and Co.

Mineral Resources chief Jack Barbarich referred *NBR* inquiries about the float to Pan Pacific chairman and Otter director Tony Radford. He said Radford could be contacted at the Renouf and Co office in Wellington, but *NBR* was unable to reach Radford for comment.

Sydney sources claim Cue hopes to make a $3 million to $5 million public float through Jardens "as soon as possible" (meaning in the next few months).

It seems a race may develop between several explorers to collect the investor's dollar. Cue in particular is understood to be aware that there is only a limited amount of risk capital available in New Zealand for such a venture.

Cue is keen to get as large a spread of local shareholders as possible — the company is understood to be looking at between 4000 and 5000 shareholders, though it doesn't want any large groupings.

A total of 16 petroleum prospecting licences as granted for a large area off the west coast, stretching from Kawhia in the north to Greymouth in the south.

Twenty-six companies will be registered as licensees and the state-owned Petrocorp will take an interest in 10 licences.

The country's biggest company, Fletcher Challenge, was one of the successful tenderers. But the plum licences went to groups of smaller companies.

The most promising licence is said to be 114, which is adjacent to the Maui field and a consortium headed by Tricentrol. The next most promising licence is 113, which went to Stewart.

Both Jardens and Renouf and Co were unable to comment on the float proposals when contacted by *NBR*.

Both the Cue float and that for Stewart (jointly owned by Mineral Resources, the Otter Mineral's oil exploration arm, Pan Pacific, and Beaver Australia) are still in the early stages.

But the fact that there are rumours of a number of other floats suggests these two explorers may step up their float preparations.

Christchurch geologist Alan Falloon, a former Hunt Petroleum man, has landed the largest single block, number 103, and has indicated that a public float may be considered to explore his licence.

There are rumours that Tricentrol may also be lining up for a float.

But a nervousness is already creeping into investment circles about the motives of some of the smaller, less well known licence-holders.

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Winding-up petition on NZLS subsidiary

by Warren Berryman

A WINDING-UP petition has been filed in respect of a 50 per cent-owned subsidiary of New Zealand Land Securities Ltd.

A winding-up petition against NZ Land GUS Ltd has been filed in the High Court by Papatoetoe lawyer Raymond Kendall who claims he is owed $199,500 by the $100 capital company, which is owned 50/50 by NZLS and GUS Properties, part of the GUS Christchurch grocery group.

The winding-up petition relates to an earlier purchase of 39 acres of industrial land near the Manukau Harbour.

NZ Land GUS bought the land in 1977. A first mortgage on it from NZLS and GUS Properties for $190,000 was then registered (later increased to $275,000).

On December 12, NZLS and GUS, as first mortgagees, put the property up for mortgagee sale on the grounds that NZ Land GUS had defaulted under the mortgage.

At the mortgagee sale, NZLS and GUS bought in the property at the mortgagees' estimate of $297,500.

This left the second mortgagee with a deficit against that mortgage security of nearly $200,000. This has led to the winding-up petition.

NZLS director Charles Pearson said NZLS's moves were made on the best legal advice.

GUS director Eric Stonestreet said the sequence of events outlined by *NBR* was basically correct, but he had no further comment.

Some Auckland real estate sources put the value of the 39 acres of industrial land in the region of $500,000 and it is understood that the second mortgagee felt the property was worth $460,000 but no bid above mortgagees' estimate was made at the mortgagees' sale.

Meanwhile Whitehaven Holdings' takeover bid for New Zealand Land Securities is not finally resolved.

A mystery buyer now owns more than 10 per cent of the shares.

To invoke the compulsory acquisition provisions of the Companies Act and take over all the shares at the 25 cents a share offer price, Whitehaven needs 90 per cent of the shares. It has about 82 per cent.

The mystery buyer acquired more than 10 per cent by offering 35 cents a share — 10 cents more than the Whitehaven bid.

The unnamed buyer is supported by other NZLS shareholders in his attempt to call an extraordinary meeting to question the directors about several aspects of NZLS' finances.

In particular they want to know details and reasons for a $600,000 mortgage taken out by NZLS, and about the executive share purchase scheme.

NBR approached NZLS for answers to these questions last week, but NZLS executives declined to comment, saying they would consider only written questions.

Whitehaven's takeover bid was announced on February 26 1981. On March 31 1981, NZLS borrowed $600,000 from the T & G Mutual Life Society on a mortgage guaranteed by CBA Finance Holdings and Haven Care Ltd (an NZLS subsidiary). The mystery buyer and his allies want to know what this $600,000 was used for.

NZLS's annual accounts show no administration costs. Opponents of the Whitehaven bid want to know how much NZLS executive directors John Martin and Richard Solomon, who control Whitehaven, have been paying themselves.

In 1974 an executive share scheme was set up by NZLS and NZLS accounts show an advance of $67,775 made by

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The week

Switch priorities, NZ electronics industry told

by Stephen Bell

A BRIGHT future lies ahead of the country's growing professional and industrial electronics industry, but prospects are more doubtful for the makers of "consumer" electronics — radios, televisions and appliances.

This emerges from the Government-sponsored electronics industry study compiled by a study team from the Trade and Industry Department, Treasury and Customs.

The study was originally intended to comment purely on the radio and television industry; however, electronics firms succeeded in having it broadened to include professional electronics and the electronic components sector, on the grounds that the three are inextricably linked.

The team sees the professional and industrial side as the bright side of the industry, with "significant growth and export potential", which fits well with the country's general industrial development strategy.

Local professional and industrial electronics firms have a vital role to play in assisting New Zealand's industry and commerce to make effective use of the capabilities of microelectronic technology, the document says.

Accordingly, the report suggests a package of investment aid and tax concessions for this side of the industry in particular, and recommends an all-out effort to attract investment by overseas microelectronics companies.

"The only chance New Zealand has of competing in high-volume, low-cost electronic components or products is if a large overseas electronics concern, with the essential markets, technology and capital, were persuaded to establish operations here."

At least one such effort has already been made, to attract American firm National Semiconductor to establish a plant here, but Natsemi now looks almost certain to go to Australia.

Several "experts" consulted recommended offering direct incentives, as Singapore and Ireland have already done, but the study team acknowledges this will not be well received by the local industry.

On the home investment front, it recommends a threefold increase in support through the Development Finance Corporation's applied technology programme, with an annual sum of perhaps $1.5 million specifically earmarked for electronics research and development.

Also suggested is a specific allocation to "appropriate government departments and organisations" — up to $100,000 annually — to fund development by local firms of high technology products and services required in future years by these state agencies.

Removal of the 40 per cent sales tax on microprocessor development systems is recommended.

But the report accuses the industry of a general lack of business aptitude. "Many manager/owners' enthusiasm and expertise seems to be for electronics and innovation first and business and profit second."

After considering the arguments in favour of continued import licensing protection for the consumer products side of the industry, the team says it "does not consider them sufficiently compelling".

The report inclines towards an "overnight" removal of import licence protection, after the industry has been given a specified time, "say four years", to adjust, by amalgamation and diversification into more competitive fields.

They argued that it needed continued protection of its "bread and butter" business as a basis for diversification; but to date, diversification has been *more promise than performance*, the report says.

The shock of the change should however, be cushioned by financial aid to diversification, says the report.

The study points out the many consumer firms make their own components in house, rather than subcontracting, so the three sectors of the industry are perhaps not as closely linked as has been suggested.

Trade and Industry Minister Lance Adams-Schneider says the report represents the recommendations of the interdepartmental team rather than of the Government and the findings are to be further discussed in a series of public hearings conducted by the Industries Development Commission.

Winding-up petition on NZLS subsidiary

From Page 1

NZLS to finance the purchase of the 134,450 shares held by NZI's trust department.

After a court order cut the 50 cent NZLS shares down to 25 cents, the NZLS accounts show this advance at only $27,632.

Whitehaven bought the executive share scheme shares from the trustee. Opponents of the bid would like to know if and why the executives were able to control shares with a nominal value of 50 cents and then buy in at half the price when ordinary shareholders had their shares reduced in nominal value from 50 cents to 25 cents.

They would also like to know reasons for the discrepancy between their valuation of NZLS's assets and the valuation given in NZLS's accounts, and that provided by the valuer in the Whitehaven takeover bid.

NZLS's accounts have been criticised by the auditor for failing to disclose turnover figures.

Whitehaven's takeover offer documents valued NZLS shares at 18 cents.

The mystery buyer, who has spent considerable time tracking down NZLS's assets, now values the shares at $1.60.

Ten days ago Whitehaven had the Stock Exchange delist NZLS shares on the grounds that its 82 per cent holding precluded a free market in NZLS shares.

Whitehaven Holdings is owned one-third each by Martin, Solomon, and Wellington Stockbroker Bruce Buxton.

Buxton is also co-director with Martin and Solomon on the board of NZLS's main subsidiary companies.

Martin and Solomon have declined to comment to NBR on the takeover bid because they were still directors of NZLS. Buxton has acted as spokesman of Whitehaven on the grounds that he, among the three Whitehaven directors, was not involved with NZLS.

The week in brief

THE Federation of Labour and Combined State Unions shrugged off Prime Minister Rob Muldoon's ultimatum that there could be no tax cuts without an agreement to offset them against pay rises.

THE Arbitration Court announced a general wage order of 5 per cent, effective across the board from June 11.

SUBSIDIES on Devco's lamb sold in the United States will be investigated following a countervailing duty action by the American sheep farmers lobby.

DEFENCE Minister David Thomson said in Malaysia that he expected New Zealand's Singapore garrison to be disbanded by 1983.

A HEYLEN poll showed 51 per cent of the population over 15 oppose the Springbok rugby tour. Thirty-two per cent are in favour and 17 per cent undecided.

ENVIRONMENTAL groups, including the Royal Forest and Bird Protection Society, joined anti-smelter group Creednz in its Court of Appeal review of the Government's decision to put the Aramoana aluminium smelter on the "fast track" National Development Act.

The week ahead

MONDAY: Family Planning Association conference, Dunedin.

Northern Commercial Fisherman's Society conference, Auckland till Saturday.

TUESDAY: Dairy Co-operative conference, Rotorua till Thursday.

Clothing and footwear manufacturers conference, Rotorua, till Thursday.

Commerce Commission hearing into copper prices begins.

WEDNESDAY: Market Research Society conference, Massey University, till Friday.

Road Transport Association discusses road user charges with government.

THURSDAY: Employers Federation advocates meet in Wellington.

State opening of Parliament.

Optical Holdings AGM, Auckland.

The week

High hopes big Shipping Corp loss will be reversed

SHIPPING Corporation's losses for the financial year ended August 1980 are estimated to be between $5 million and $7 million.

But the corporation is quietly hoping 1981 figures will show a complete turn-round into profitability.

The precise 1980 loss figures will not be known until the corporation reports to Parliament this session on its past year's activities.

Major contributors to this second year of losses were high overseas' *borrowing costs* and associated losses for the corporation's flagship, the New Zealand Pacific.

Yet the line's future still looks bright, according to shipping industry sources. The corporation recently sold, then leased back, the New Zealand Pacific from the Bank of New Zealand, hard on the heels of a similar move for the New Zealand Caribbean.

The lease package, put together by the Development Finance Corporation, meant a *major restructuring of corporation finances*, while keeping ownership and control of the nation's $84 million flagship within New Zealand.

Consideration for the deal has not yet been disclosed, but sources said it was "very beneficial" to the corporation.

Already there is private talk that the loss situation has been reversed, and after-tax profit for the year ended August 1981 is tipped to approach $7 million to $8 million.

New Zealand Pacific . . . "beneficial deal"

Corporation controllers have been able to avert a minor financial crisis by restructuring the financial arrangements for their most valuable asset, so reversing the worrying two-year trend.

Soaring interest rates and the vagaries of foreign exchange losses on captial intensive projects have been the major influences on the corporation's finances.

Under the new arrangements, first mooted in 1978, the corporation can apply to repurchase the vessel for a modest sum, after 12 years, by which time it will be largely written off.

On the trading front, activities through the year will probably produce consistent results. *NBR* understands up to $30 million gross profit can be expected from operations, either direct or by transhipment to some 80 countries. Last year they amounted to about 850,000 tonnes.

The state-owned line has been involved in some 54 sailings through the ANZECS consortium in the British and European trade.

There has been support from local and Japanese companies for trade along the Pacific rim and only a period of sustained operations will prove the worth of the 12 per cent share (increasing gradually to 15) it has negotiated with other operators.

The coming year may also demand a greater response by the line to examine a service to Hong Kong, Taiwan and the Philippines, following recent representations from New Zealand exporters wanting to trade in the area.

The downturn of the West Indies trade may even mean the relocation of the New Zealand Caribbean into the South East.

The forthcoming visit of the president of the Mexican National Line and recent discussion on joint-venture possibilities into the Arabian Gulf are other areas on which the corporation might settle.

The corporation is also known to have been active on energy fronts, following calls by the maritime unions for at least one 100,000 tonne crude oil tanker and a proposal for a specially built LPG carrier to service coastal installations for the Liquigas consortium.

Successful negotiations for the export of New Zealand coal to Fiji, Japan and Korea will almost certainly mean corporation overtures to the Mines Division.

Government indecision torpedoes wage-tax talks

by Ann Taylor

TRIPARTITE talks aimed at changing the direction of wage settlement procedures have fallen down because of Government unwillingness to produce a formula employers and unions consider workable.

At last week's plenary session FOL, Employers Federation and Government, representatives agreed on a series of formulas which related tax cuts to wage movements.

Tables were put together which took into account seven steps of wage increases ranging up to 18 per cent and five steps in a scale setting out where tax cuts could be applied.

The tables did not set out how an offset deal would be based on net or gross wages and whether it would be implemented at settlement or claim stage. Nor was agreement reached on how the trade-off was to be implemented and enforced and how it would be applied to individual agreements.

The FOL had written to the Government the week before asking for a firm proposal. The reply: that the tax cut would be at a flat rate and that there "would be something in the Budget".

Prime Minister Rob Muldoon asked during the talks if the next wage round would be negotiated on a net or gross wage basis, at first replied "yes, net" but later said "no".

NBR understands that Muldoon offered nothing firm at last Monday's meeting.

The FOL is not prepared to agree in principle until the wage-tax trade-off is "set out properly".

The FOL conference endorsed policy to oppose "the possibility of tax cuts to replace and/or offset wage increases . . . on the basis that the long-term effect upon the provision of welfare services will have a *negative reaction upon workers*".

Muldoon gave an assurance last Monday that social services would not be affected and undertook to finance a trade-off from the Government deficit.

The FOL *representatives* said they had a mandate from members to negotiate a tax-wage trade-off as long as social services did not suffer.

The Employers Federation is disappointed that "the common sense of a wage-tax deal cannot be implemented this year".

NBR understands the employers saw Monday's meeting as a "step on the way" to implementation. "For a *trade-off to apply* we have to have some idea of what wage settlements will be this year," according to one source.

The employers think Muldoon must have agreement in principle before he can proceed. "Before he works out his Budget he needs to get agreement from the FOL to work out a tax cut."

Discussions among the three parties have continued since April last year.

The officials' working party met every two or three weeks and the plenary sessions with executive members of the FOL, Employers Federation and the Prime Minister every six or eight weeks.

The tax-cut initiative, depends on a high degree of consensus among the three parties — but it is being thwarted by "a couple of machos aligning at each other in public," as one party to the talks told *NBR*.

New Laser 'zaps' local Ford component manufacture

by Allan Parker

THE Ford Motor Company is not renewing parts supply contracts with local component manufacturers, the result of its developing the new "world car" model, the Laser.

Lost business is estimated at up to $5 million a year for the hard-pressed foundry industry, already facing a business downturn.

And exports worth millions of dollars a year will be lost — most of the component parts were used to build transmissions at the company's Wiri plant and were shipped to Australia for the Cortina and Escort models.

The Laser, a Japanese-designed model with front-wheel drive, is intended to replace the Escort.

But transmissions suitable for the Cortina and Escort do not fit the Laser, and the specially-negotiated Ford deal to supply its Australian operation has ceased.

So, too, have the supply contracts with the New Zealand component manufacturers.

At least three companies have lost their contracts. All describe the lost business as "significant".

The other giant United States car maker, General Motors, is introducing its own version of the "world car".

Under the concept, parts for a common model are made in various countries and shipped to another country where they are assembled for distribution as CKD kits or CBU units to a regional grouping of nations.

Ford and GM hope the savings in design, tooling and assembly operations will enable them to counter the growing Japanese dominance in the international car industry.

Ford has already begun making aluminium wheels at its Wiri plant for shipment to assembly operations overseas.

The Government is trying to woo the company into basing another "world car" component industry on the increased aluminium output from the extended Comalco smelter or the proposed South Pacific Aluminium plant at Aramoana.

Such a commitment by Ford would show smelter critics that some downstream industry would follow the increased output.

But motor industry sources do not believe Ford will make such a multi-million dollar investment commitment while the industry faces a major probe by the Industries Development Commission, due to begin soon and be completed next year, and unless it can get long-term political assurances about supply, pricing and trade-offs that would help other plans.

Trade unions and New Zealand-owned interests in the car industry have consistently expressed fears that the "world car" will generate unemployment by making redundant local assembly and associated supply industries.

The new Ford move will reinforce those fears.

The Wiri transmission factory was established in the early 1970s as part of a Nafta 3:7 deal between the Ford operations in both countries.

As part of the deal, Ford was given a "holiday" from inclusion in the system of mandatory deletions which CKD importers exclude from their car kits. These mandatory deletions are then supplied to assemblers by the local component manufacturing industry.

The "holiday" allowed Ford to go elsewhere for components for its car assembly that would ordinarily be part of the mandatory deletion list.

The "holiday" was renewable annually, but in 1978, pressure from component manufacturers resulted in the ending of the agreement by the Government, putting Ford back on to the ground rules affecting other assemblers.

The transmission assembly in Wiri set up under the 3:7 agreement is expected to be phased out by August. One industry source estimated the sale of the transmission to Australia was worth about $8 million a year.

The Wiri plant however, will remain operating, producing aluminium wheels for export. *NBR* understands Ford tried to get a similar 3:7 agreement to supply its Australian operation with the products, but was turned down by the Australian Government because of excess capacity within the Australian component industry.

So the company is believed to be supplying Australia over the tariff price as well as exporting to other Ford operations.

Meanwhile, the transmission component suppliers who have not had their contracts renewed are trying to locate new business.

But outside the Government, the car industry is the only customer that can provide volume production work for the foundry operators.

The companies spoken to by *NBR* appear to have accepted the Ford move as a logical commercial decision. But, as one commented: "We are very disappointed, of course."

While not a majority proportion of their foundry business, the Ford component manufacture was significant. One of the companies said it was as high as 30 per cent at one stage.

Replacement of that business, the companies say, will be difficult. One company spokesman suggested the Government could assist by putting more items on the list of mandatory deletions to replace the lost volume production.

But he recognised that such a move would run counter to current Government policy aimed at freeing up the New Zealand market.

Club Med, Mt Cook look at Queenstown

by Lindsey Dawson

THE Mount Cook Group has been holding talks with the Club Mediterranee resort chain to establish a ski resort in Queenstown.

Travel industry sources say the international resort chain has virtually made a commitment to open up operations in this country. It has been holding informal talks with Mount Cook, and has inspected three sites — Turoa in the North Island and Queenstown and Wanaka in the South.

Mount Cook is known to be pushing hard for Queenstown on the grounds that it would give the resort the longest span of the year — with skiing for three months in the winter and good weather in the summer.

The Mount Cook Group and Club Med have not established any formal link but a resort at Queenstown would be heavily promoted by the New Zealand transport and tourist group.

Club Med's New Zealand manager Alex Elkayem told *NBR* the idea was only at the drawing-board stage, but that proposals had been made to establish a resort.

He would not disclose possible sites for a Kiwi Club Med, but said that the organisation had 23 ski resorts throughout the world, and it was possible to provide enough attractions to pull in guests year-round even though the snow season itself might be short.

Club Med has just gained a higher profile in Auckland with a new downtown sales office.

Comment

Editorial

AT its annual conference, the FOL resolved to oppose tax cuts in lieu of bigger wage increases (among other reasons, for fear that social services might be cut). Last week, it gave effect to that resolution by declining, in tandem with the Combined State Unions, to agree in principle to reduce wage demands in return for a tax concession. Prime Minister Rob Muldoon promptly insisted that their rejection meant no tax reductions would be conceded in this year's budget. So much for desperately needed tax relief, if he is good as his word and the FOL sticks to its resolve.

The FOL, of course, is open to the criticism that its conference resolution puts its negotiators in an inflexible position at the bargaining table. Sir Tom Skinner, it has been said, would have ensured he was given more manoeuvrability by having the controversial remit amended. More important, the FOL is exposed to Muldoonian charges that it is to blame if there is no tax relief. Muldoon can tell a public clamouring for tax reform that the Government is willing to oblige, but that the FOL's intransigence prevents any action being taken. In election year, therefore, he can mobilise public opinion against the FOL, and in turn, against the Labour Party, on the tax question.

The FOL's refusal to accept a deal also makes it liable to become Muldoon's scapegoat if agreement on the broader issue of wage-fixing procedures cannot be reached. He made plain last week that it was "pointless" for FOL president Jim Knox to say that the tripartite talks involving unions employers and Government should continue when the FOL was not prepared to accept a wage-tax trade-off. The talks could be resumed if the FOL should change its mind; the initiative lay with the FOL.

But the unions must be bothered that concessions are being demanded of them to reach a bargain that has advantages for others who will concede nothing — business executives, the self-employed, and so on, who will gain from tax cuts, but who already are able to buffer themselves against high taxes through tax-free allowances, company cars and other perks. There is something of the envious in this attitude, and the real incomes of executives have been hit, too, by high taxes. But the FOL shouldn't be expected to go out to bat for them, too.

More important, the FOL must want to be sure that if taxes are cut, the real wages of its members will be restored. Muldoon makes the tax-wage trade-off sound like a magic formula that will work across the board. In fact, it must be applied to individual cases, with differing consequences for real incomes.

Further, the trade-off has been spelled out only in broad terms by Muldoon — $1 a week of tax cuts in exchange for $1 a week in the wage round. But he has given no indication of the size of a possible tax reduction because Budget figures have not been completed. Thus the Government has put forward no specific proposals, but only the vague notion of tax cuts in return for cooperation in lower wage demands. The unionists can be forgiven for not wanting to buy a pig in a poke.

They were concerned, too, to establish if the bargain involved merely once-only tax cuts. What is important to them is not merely the striking of a deal now, but also Government recognition of the need for an ongoing commitment to fundamental reform of the system. They have cause to be apprehensive. Muldoon had ruled out the elimination of fiscal drag before the FOL conference; he reiterated that attitude in the tripartite talks last week.

The issue is stalemated: the unions insist that the Government define the level of internal deficit and the type of tax change before matters can be taken further; Muldoon wants the unions to reduce their wage settlements and accept unspecified tax cuts. This year's wage round begins in July. Union advocates are being advised to pursue their wage claims as they normally do. And in the upshot, wages seem likely to increase by 18 per cent. That means that by the end of the year, the average ($11,000) wage-earner will be promoted to the 48 per cent marginal tax bracket, and if inflation continues at 16 per cent, within about two years will be earning the $17,000 that puts him into the 60 per cent marginal tax bracket. A politician as astute as Muldoon shouldn't have to consider the implications for too long before recognising that there is bound to be widespread disquiet, if not dismay, among the over-taxed citizenry before too long.

But if Muldoon is baulking on tax reform (and using the unions as scapegoats), perhaps he has good reason. A 5 per cent cut would slash $500 million from state revenue. But the unions will be dissatisfied with anything less than 10 per cent — is a hefty sum to be absorbed within an internal deficit currently (and conservatively) estimated by the Economic Monitoring Group to be $1410 million.

But the EMG argues in favour of tax cuts, as both deflationary and job-promoting. In its recent survey of economic trends, it reported that employers were reluctant to take on more staff. Changes in wage costs were a significant factor. According to the EMG, many firms were reducing their reliance on labour and trying to improve efficiency through technological innovation. Muldoon has endorsed that thinking. He said the FOL's resolution opposing tax cuts in lieu of wage increases was "a vote for continuing high inflation and is directly contrary to the best interests of rank and file trade union members."

If there are intrinsic merits in tax cuts, then the Government should implement them regardless of the wage negotiations. Muldoon is abdicating his duties if he claims that without a trade-off, there will be no tax cuts and "the responsibility rests with the FOL . . . " Government politicians accuse the FOL often enough of trying to run the country. On this issue, Muldoon is curiously inviting them to do just that.

The Government might be concerned that the unions will demand high wages regardless of tax cuts. But depending on the extent of the Government's generosity in that regard, unions that ignored reality would invite hostile public opinion, their credibility would suffer, and the Government could portray them as the prime culprits who wrecked the fight against inflation. Indeed, the Government could invoke legal powers to swiftly bring matters under control if wage bargaining threatened to get out of hand. There was a hint from Muldoon he had this in mind when he said last week that regardless of whether agreement was reached on the tax question, "there will be no wage explosion this year".

So the simple choice is Muldoon's, not the FOL's. He can demonstrate to the electorate that he has taken determined action to combat inflation and pave the way for the success of the tripartite wage-fixing talks by cutting taxes. Or he can continue to disappoint a significant number of voters who are crying out for tax relief and who may wonder why the responsibility for decision-making has been delegated to the FOL.

— Bob Ed.

Brockie's view

Without word of a lie

Good Newz?

THE Newztel news service — set up by two former press secretaries to Prime Minister Muldoon — has won another round in its parliamentary press gallery accreditation battle.

Press gallery journalists last week voted against a motion designed to exclude the company's news and information service from the gallery.

The motion was designed to stop accreditation of organisations or people who receive political party funds. Newztel promoter Gerry Symmans is a consultant to the National Party for election year publicity campaign planning.

Symmans and Newztel colleague Peter Aitchison are former press secretaries to Muldoon.

If it had been passed at last week's special general meeting of gallery journalists, the motion would have urged Speaker Sir Richard Harrison to rule out representation for any political newspaper or publication.

At the same meeting, the Labour Party applied for accreditation for its new publication, the *New Nation*. The application was deferred, but only because it did not name an individual who would be granted the journalists' seal of approval, gallery sources told *NBR*.

Initial changes

A GROUP of company directors, enjoying a quiet drink with some friends at the end of the day, were overheard discussing comings and goings on high at Air NZ and speculating on prospective future chairmen.

Des Dalgety's name, naturally, cropped up in suggestions — just the man to tidy up the Mahon abortion, as one of the group quipped.

And the first thing he would do was change the name, rejoined another — "something like South Pacific United ..."

NATIONAL BUSINESS REVIEW
Published by Fourth Estate Newspapers Ltd
Managing Director: Reg Birchfield
Marketing Director: Ian F Grant
Production Manager: Ralph Green
Accountant: Robyn Pickett
Wellington Head Office:
15 Blair Street, Wellington, NZ PO Box 9344,
Tel: 736-876 Cables: Natbus
Editorial:
Editor: Bob Edlin
Business editor: Klaus Sorensen
Sub-editor: Warren Mayne
News & Features:
Colin James, Ree Mazengarb, Stephen Bell, Jack Hodder, Allan Parker, Ann Taylor
Advertising Sales:
Manager: Paul A C B Loh
Subscriptions:
Ian Dalziel
Auckland Office:
1st Floor, Shaws Building
38 Fort Street, Auckland
Tel: 798-304 (Editorial)
Tel: 798-694 (Sales)
PO Box 1734
Bureau:
Warren Berryman, Gordon McLauchlan
Sales (Circulations & Subscriptions):
Frits Hermans
National Business Review Incorporated ... and is a registered publication weekly ... last week December and first ... January).
Set and composed by Fourth Estate Newspapers Ltd
Printed by R Lucas & Sons Ltd, 118 Kapiti Road, Paraparaumu.
Single Copies: 60 cents
Subscription: NZ$30
Member ABC (Audit Bureau of Circulations)

Comment

The veritas about the vino: an insider view

by Terry Dunleavy

THE truth that is said to be in wine was not always said about wine in comments which followed the release of the Government's decisions on recommendations made by the Industries Development Commission for the future development of the New Zealand wine industry. I am grateful to *NBR* for this opportunity, on behalf of the Wine Institute of New Zealand, to bring the public record back into fairer perspective.

Let's take some of the more woolly statements one by one:

"The plan is over-protectionist." False. Rather than reduce the quantum of foreign wines imported into New Zealand, it will increase the total quantity, and will certainly improve the quality and widen the range of consumer choice.

It is estimated that import licences issued for wine in the current year, ending on June 30, will total $6.4 million. The tariff quota for 1981/82 has been set at $8 million for former licence-holders, and there will be an extra $2 million added to the quota when the law is changed later in the year to permit New Zealand wine resellers to sell imported wines as well.

The total quota represents an increase of 56 per cent in funds available for the importation of foreign wines, a rise well in excess of the combined effect of overseas inflation and the reduction in the relative value of the New Zealand dollar. The only price protection is against cheap imports. This will meet the oft-stated requests by many commentators and wine clubs for a wider variety of better quality overseas wines.

As doyen wine writer Jock Graham said in the *New Zealand Herald* the other day: "No tears will be shed for the exclusion of imported plonk."

"Prices of overseas wines will double." Almost entirely false.

It is true that the penal duty rate on wines below $2 per litre fob, which are, therefore, below the starting level of the quota and, thus intended to be discouraged by the Government's plan, will double in price. But there's nothing singular about New Zealand's concern about cheap wine imports.

No less mighty an economic empire than the EEC is worried about the consequences for its wine industry of the accession to the community of Spain, Portugal and Greece.

In the case of Spain, the EEC is arranging a seven to 10-year transitional period to bring Spanish wine prices up to community levels.

A more accurate indication of the effect on the general range of imported wine prices can be gleaned from the list of changes which will take place in the prices of specific wines within quota, set down by Frank Thorpy in *NBR* (May 11), which showed that the average rate of increase in those wines was just under 6 per cent.

It is clear Government policy to allow for more imports, but to steer those imports into a slightly higher price bracket in the hope of encouraging importers to look for better quality overseas wines.

In fact, the new tariff levels will permit medium to high quality foreign wines to reach New Zealand shelves priced about the same level as the top New Zealand premium wines.

This will have the effect of putting a ceiling on New Zealand wine prices, and will enforce cost/price containment on those of our wine makers who wish to maintain clearly defined quality/price strata inside their total product range. If they have to hold their top prices, they will also have to hold the lower prices to maintain the dividing price gaps.

"The New Zealand wine industry is uncompetitive." False. When looked at from the consumer's viewpoint, it may appear that New Zealand wines are dearer, but that apparent difference arises from costs beyond the wine maker's control.

IDC assessed that growth of our industry would be constrained by consumer price resistance unless something could be done about four major areas of cost: grapes, packaging, sales tax, and distribution costs. Except for the 45 per cent of grapes grown by wine-makers themselves, all of these factors are beyond our direct control.

A recent comparison of bulk wine prices showed very little difference between Australia and New Zealand. But once the processes of bottling, cartoning, taxing, freighting and distributing at wholesale and retail are taken into account, the adverse effect on New Zealand prices became increasingly apparent.

If anyone is uncompetitive, it is the grape growing, packaging and distribution industries.

The Government has made its contribution to cost containment by converting the current *ad valorem* sales tax to a specific tax per litre, which will stabilise wine prices in the future, and should yield consumer price reductions in what are now the top price brackets.

"Export potential for New Zealand wine is very small." Maybe, if looked at only in dollar terms. Critics must take into account also, as IDC and the Government has done, the multi-million dollar saving of foreign exchange from import substitution.

The real value of New Zealand wine exports will be as another component in the range of high quality New Zealand exports of food and drink which will help to enhance our country's reputation for quality and uniqueness of character in this field.

Most of the other exports arrive at foreign tables in complete anonymity. By contrast, the New Zealand bottle of wine arrives with its label intact, proudly identifying itself as a product of New Zealand, and likely to start a conversation about the ability of our country to produce so many things which are good to eat and drink.

Development of an export market for wine takes time. Within a decade, the dollar value of our wine exports will surprise most New Zealanders, and will confound the current scoffers.

"There has been intense lobbying by the wine industry." Not just false, but utter rubbish!

There seems to be widespread ignorance, certainly among the media, of the Government's clearly stated intention to ensure full consultations with any industry undergoing an industry study and IDC investigation. The bulk of those consultations, and certainly all the detail, takes place with departmental officials, who can be quite hard-nosed in their defence of the public interest against any undue industry privilege.

The politicians, by the nature of their calling, are required to act as referees between all the conflicting interests. To suggest that there has been anything untoward is to denigrate the integrity of those officials, and also of the responsible Minister, Lance Adams-Schneider who, all shades of political and industry opinion agree, has been one of the fairest and ablest holders of the Trade and Industry portfolio the country has ever known.

One thing that process of consultation does require is complete and meticulous homework by all parties affected by an industry study, and certainly by those who presume to comment on the result.

In summary, the New Zealand wine industry has been issued a challenge, and has been given five years to prove that it can attain the potential which has been recognised by both IDC and the Government. We can only hope that the wider community will give the industry the same degree of encouragement, and now leave us to get on with the job of maximising the contribution which we feel our industry can make to the enhancement of our unique New Zealand life style.

Terry Dunleavy is the executive officer of the Wine Institute of New Zealand Inc., which represents the interests of all grape wine makers in the country.

Without word of a lie

Polling opponents

MINING companies have 500,000 hectares under exploration licence — and "interested parties" are still coming to look at prospects for development. But some seem to be taking the precaution of ascertaining public opinion.

Public relations consultancy Eric White and Associates has been approaching environmentalists, prospecting groups, business organisations — "anyone who may wish their view to be known to potential mining interests" — on behalf of its agency office.

Eric Whites will be reporting on the "climate for mining operations of all sorts" for several large mining corporations . . . interested in expanding their mining operations in to New Zealand".

But some of the citizen and environmental groups approached by the PR company are understood to be wary that their tactics, power and attitudes are being gauged to facilitate the establishment of mining companies here.

At a time when the Mining Act 1971 is under review, Eric Whites is intent on "outlining the procedures that must be adopted to avoid enterprises that seriously affect the public welfare".

Consultants David Exel and Chris Hawkins are writing to interest groups, advising: ". . . it would be to our mutual benefit if you could give us: a brief outline of your attitudes to trans-national ventures . . . your suggestions as to procedures which should be followed by a company prospecting".

They say they do not know the name of the client company, and that they often do "simple surveys" of this kind.

They want to be able to recommend to their clients "that in any future mining ventures here, they follow planning and environmental procedures that will be acceptable".

Letters

Matter of ethics, not red faces

IN Klaus Sorensen's article "FCL embarrassed by premature sellout to PPCS" (*NBR*, May 18) he reports certain comments which imply Fletcher Challenge incompetence, without mentioning the fundamental question of ethics.

The funds controlled by Broadbank Nominees are managed on behalf of the trustees of various superannuation funds, by what is effectively a Trust Department within Broadbank Corporation Limited. The investment of these funds is made in the best interests of the beneficiaries rather than in a manner which simply satisfies the Fletcher Challenge group's own aspirations.

The reverse situation also applies in that the trust funds do not have access to "insider knowledge". Mr Jenkinson of the PPCS could have been legitimately "astonished" if, through "insider knowledge", Broadbank Nominees had waited for the Fletcher Challenge bid of $4.05 per share, or if the funds had been influenced by Fletcher Challenge not to sell to PPCS. (It is worth noting that insider trading is an offence in most overseas markets.)

As it was, the trust funds sold close to half their shares to the PPCS and most of the balance to the mystery bidder's broker who was subsequently revealed to be acting for Fletcher Challenge.

As a group, Fletcher Challenge need feel no embarrassment at these actions, unless ethics are no longer to be valued. It is the essence of investment management that independence and integrity be maintained at all times, as was the case in this instance.

C G Perrin
General Manager
Broadbank Corporation Limited

Untrue, unfair to Values

I WAS amazed to see the amount of space you were prepared to allocate to Colin James' comments on the Values Party conference (*NBR*, April 27). As James points out, "there is not too much big-V Values visibility to the voters" these days.

Having gone to the trouble of covering this exercise in Lilliputian politics, however, it would have been nice if the various opinions expressed and predictions made had been related to reality.

Firstly, my seven-year close association with the Values Party clearly reveal that whatever faults Values people may have they are not excessive purity, smugness or a belief that they are ahead of their time. On the contrary, Values people are convinced that their analyses of the current situation are immediately relevant and that their policy responses are needed now.

Of course, they are certain of the correctness of the position they have adopted, but to suggest that this is tantamount to smugness and excessive purity is snide, unfair and untrue.

Secondly, to quote Milton Friedman as an authority on political marketing must be some sort of a joke. Consumer-orientated politics is the preserve of populist political parties such as Social Credit and to some extent Labour.

It is not the practice of the establishment, nor is it the practice of political movements committed to advocating profound political, economic and social change.

In other words, the Values Party now tends to see its first priority as political education both within its own depleted ranks and within the greater community. It must start again at the beginning and concentrate on working to create the climate of opinion necessary to sustain an eventual concerted move to implement through the exercise of political power, the socio-economic and political changes it believes are needed for survival.

That it might not succeed because of its now very small active membership does not mean that its new generation of leaders have got their priorities wrong.

Finally, your correspondent's statement that the Values people who departed from the scene in 1979 were searching for the moss heart through doctrinaire socialism is surely nonsense.

As the author of one of the papers presented to and adopted by the 1979 Values Conference, I find it difficult to accept your correspondent is as ill-informed as that statement would indicate.

My paper was based on the premise that capitalist economics are inherently exploitative, socially divisive and disruptive, egocentric and in the long-term self-destructive. I went on to emphasise that such societies are characterised by environmental spoilation, the irrational utilisation of finite resources, class conflict and threatened by periodic, social and international crises.

Consequently I recommended that the Values Party should recognise that a socialist response to current problems was called for but that that response should be a libertarian socialist response in the tradition of Noam Chomsky. Certainly the paper's recommendations accepted by the conference could in no way be described as doctrinaire socialism.

Ironically the Values Party decline has been due in the main to differences over personalities and style rather than substance and here is to be found its greatest tragedy.

John A Stewart
Christchurch

Making credit available

EVEN if one does not know Minton's *Capital and Wages* nor anything about a Mr Frederic Hill's autobiography written last century, the following quotations from Macleod's *Theory of Credit* (second edition, 1894), are nonetheless interesting today in view of the issues at stake in the impending elections.

First, Macleod gives this quotation from Minton: "The States of Guernsey, having determined to build a meat market, voted 4000 pounds to defray the cost. Instead of borrowing this sum at 5 per cent interest, the governor issued 4000 cardboard tickets on which was inscribed "Guernsey Meat Market Notes": they represented one pound each, and were legal currency by universal consent. With these notes they paid the contractor; and with them he paid his workmen, and all who supplied them with materials. These were freely taken by the tradesmen for goods: by landlords for rent: by the authorities for taxes. In due season the market was completed.

"The butchers' stalls, with some public rooms over them, were let for an annual rent of 400 pounds. At the expiration of the first year of this tenancy, the States called in the first batch of notes, numbered one to 400: and with the 400 pounds of real money received for rent, redeemed the 400 pounds of representative money expressed by the "Meat Market Notes." At the end of 10 years all the notes were redeemed through the application of the 10 years' rental. In this way they built a very good market house, without paying any interest on borrowed money, and without injuring anybody.

"I am informed that one of the first docks constructed on the banks of the Mersey in Liverpool was made in the same manner. Labour notes were issued which circulated all through the town, as money does, and they were redeemed out of the dock dues of the first few years."

The second quotation, from Frederic Hill's autobiography, is: "I may mention the abundance of paper money in Guernsey as a great cause of prosperity. The paper money is issed by the Government of the iland (*sic*), and in the following way. When any great undertaking has been determined on by the States (as the representatives of the people are called), such for instance as the opening of new roads, there is immediately an issue of one pound notes.

"These notes are sent out as the work proceeds, and as money is wanted. When the undertaking is completed, and begins to yield an income, the notes are brought in again and new undertakings are commenced. The notes are not payable on demand: indeed the Government has not even an office at which they can be presented. Nevertheless the notes are never refused.

"The people find by experience that their representatives do not issue the notes in greater abundance than the demand for them justifies, and consequently, no depreciation in their value is to be feared. Moreover, the purposes for which the notes are issued are of advantage to every man in the iland, so that everyone looks upon them as coming from a bank in which he is a partner. Here, then, in the little iland of Guernsey, we have, perhaps, the only instance in the world of a really national bank: a bank in which the whole property of the state is the security, and the profit of which is shared by the people at large. By means of this healthy currency, undertakings of great magnitude (considering the size of the iland), have been executed during the last few years."

A serious problem in New Zealand today is that credit is not readily available to "working men". By and large, the only capital is their labour to sell. Instead of allowing the generous credit on the strength of a prospective 35 or 40 years' earnings, we find them compelled to pay such high amounts in rent and travelling expenses to work, that they cannot amass the capital necessary for them to get a balance on credit to buy a home. When suggestions are made for easy credit, the variable response is, "Where will the money come from?"

On the strength of that question, credit is denied; but one asks where the money is to come from to pay the dole to people to be inactive. Surely it makes more sense to make credit available to have work done than to pay money to do nothing.

C T Ball
Papatoetoe

Politics

The uncluttered view of the overseas observer

by **Colin James**

THERE are times when distance helps. *One of those may well be in predicting election results.*

I have called each of the past four elections correctly in the sense of picking who would have the most seats in Parliament.

But it was in 1975, when I was on the other side of the world, that I had least trouble and doubt picking the winner.

From that distance I could see only the broad sweep. Up close one is besieged by confusing detail.

So I shall be interested to read the forthcoming predictions in the Australian *Bulletin* by Malcolm McKerras, the trans-Tasman political scientist who devised the election pendulum and who earlier this month took a swing through the country.

I quote with interest from a London *Financial Times* article of a couple of months ago by Colin Chapman, the paper's Australian-based stringer:

"One year ago, voters seemed *virtually certain to turn the ruling* National Party out of office in the next elections . . . Mr Muldoon can now look forward to a third term with some confidence."

The Prime Minister has certainly been behaving as if he has that confidence: derisively and delightedly composing the obituary of his old enemy, the Labour Party.

And the opinion polls continue to lend support to his confidence.

The May 2 Heylen Poll put him up another point to 38 per cent in the prime ministerial preference stakes — his highest since the 1978 election. And that was after a week in which we skilled observers thought he had got himself badly offside over the Erebus report.

The poll put National up to its highest point since the election — 42 per cent (Labour up, too, by 1 per cent to 32.3 per cent and Social Credit down to 25 per cent).

I said here a couple of weeks back I would be surprised if that happened and I am. One might have expected that result the Saturday after the Federation of Labour conference, but not before.

So what is going on?

Perhaps most significant is that the National Party is feeling better about itself than it has felt since the conference last year (about the time, incidentally, the Prime Minister's preference rating reached its previous post-1978 Heylen peak of 36 per cent).

The threatened departures in the wake of the elevation of Duncan MacIntyre to Deputy Prime Minister have not occurred — at least at the visible level of branch committee and above.

On the contrary, if the reaction of delegates to the Wellington divisional conference earlier this month is anything to go by (and it usually is), the party seems to be getting over its jitters about the Marginal Lands Board affair and according him once again something of the warmth it used to.

The party has always had a special soft spot for the dignity, common sense, good humour and approachability of the man and now seems again to be willing (and free enough) to indulge it.

There has been a change, too, in voter support.

Even among traditional supporters there has been and still is a considerable amount of dissatisfaction with the shape and policies of the Government. Four or five months ago that was coming through to party canvassers as: "National will be the Government, but I am not going to vote for you."

But two things have happened since then.

The Government for once was seen publicly to be standing up to the unions over the Mangere picketing issue. Many of the harshest supporter-critics of the Government have been hottest about what they see as its failure to curb union excesses.

The second seems to have been a changing perception of Social Credit's potential post-election role.

Till recently disgruntled Nationalists tended to see Social Credit as a harmless repository for protest.

But its continued success in opinion polls, plus a tendency among Social Crediters to let the brakes off their expectations (Beetham is now hinting publicly at replacing Labour as *the official Opposition) may* have helped disgruntled Nats to see it as a threat to their own preferred party's security.

So more *National* canvassers are reporting that disgruntled supporters are beginning to fall into line. That may account for the otherwise paradoxical rise of National and fall of Social Credit in the May 2 poll.

Some supporting evidence has also emerged at two "morale-building" garden parties recently in the Rangitikei (Beetham's territory) and the Wairarapa (potentially at risk to Labour) seats, at which National organisers are claiming turnouts of more than 1000.

The cranking and pedalling of the election machine is also warming up.

But it is still uneven, as the refusal of the Dunedin organisation to run a $100-a-plate Jones dinner indicates (there may now be only 30 to 35, instead of the originally targeted 45).

Some inside the party caution that many of the crankers and pedallers are going through the motions.

One should not read too much into that, since even in low gear the National machine once in motion develops a fair momentum.

And there is evidence of real enthusiasm among some of the newer campaign managers.

But the cautioners may have a point. *The Wellington divisional* conference had a settled and calm atmosphere about it. No undertow of complaint and criticism as *in the past two* years; but also no fire in the belly (as Labour managed at times at its conference).

The Auckland divisional conference has been reported to me as "laid back" with that same settled air. So, from reports, was Waikato. How the two South Island conferences this weekend just past went I could not know at the time of writing.

There seemed to be a mutual feeling out of ground between the party and the Prime Minister. At Wellington — and, I am told, Auckland and Waikato — he was received good-naturedly, probably because he was more good-natured himself and concentrated on positive matters, the growth strategy in particular, and spent little time knocking enemies real or imagined.

He was also by and large in tandem with president George Chapman. There is at last, if not harmonious unity, at least a sense of common direction.

It is tempting to go with the tide, to wheel out from the *garage where it has lain rusting* for 18 months, my "instinct" that National will win. But there is something indefinably *brittle about National's current* quiet rebuilding.

For instance, organisation sceptics are surprised that the Prime Minister's new almost-moderate, almost-reasonable mood has lasted as long as it has.

In this light, consider the Prime Minister's public meeting in Lower Hutt on the night the Labour Party conference ended. He issued instructions for the meeting only 10 days earlier.

Yet it was not *for* want of public platforms — two party conferences were due that weekend.

He seems to have doggedly decided the party shall see him only in the positive mould. And so, for an escape valve for negativity, he went outside the party.

At Lower Hutt, after a 20-minute genuflexion to the growth strategy and a bit about his "social" legislation (against drug traffickers and gangs), he got stuck into the Labour Party (20 *minutes* on the cost of its promises and the same amount of communist smearing) — but in a curiously low-key tone.

It was a cheerless speech, judiciously kept away from the party. At the end of the speech, there was a standing ovation of *one from an audience which far* from filled the hall.

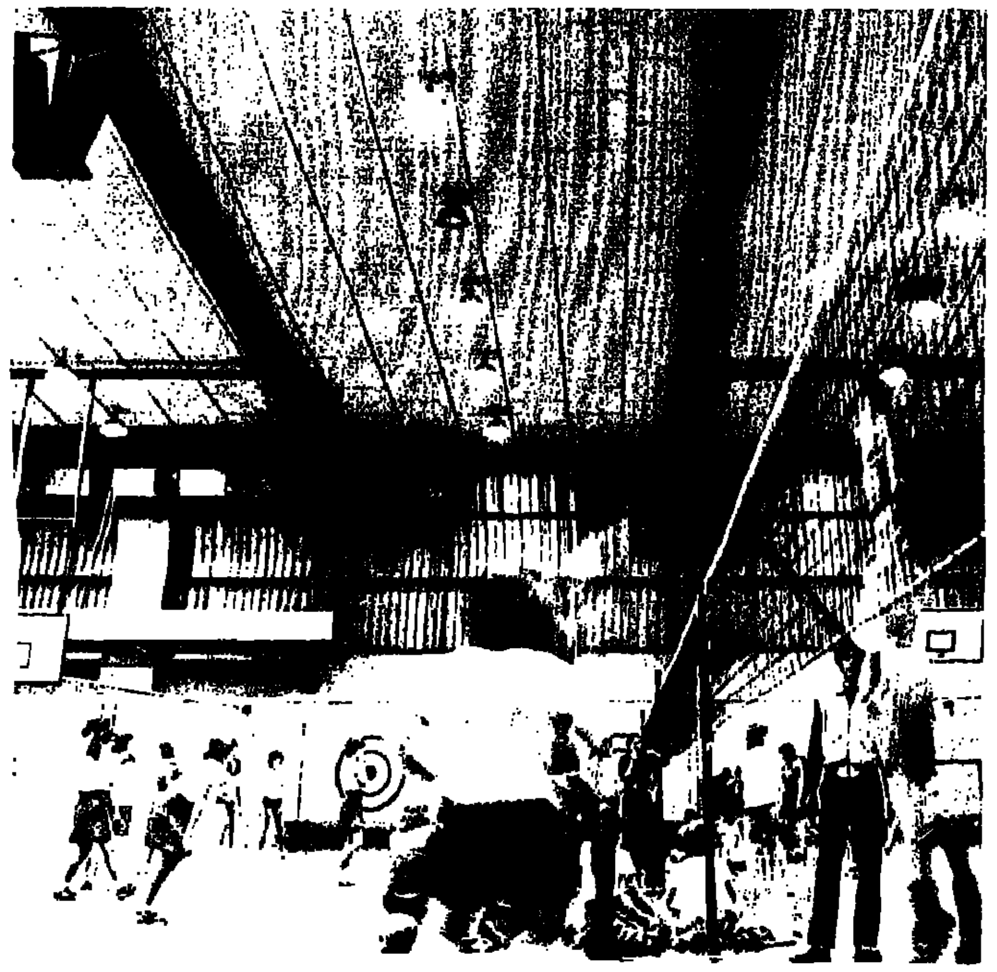
The question hanging in the air is how long will he settle for *that sort of response — in other* words, how long he will resist the temptation to light up real fireworks?

There might be a clue in his latest book, *My Way*, but since it was launched on Thursday and I was not sent an advance copy (the publishers are unbiassed: they did not send me *The Kirk Years* either), I could not know at the time of writing.

We are six months out from the election and Parliament is about to reconvene in a mood that promises the keenest and most uncompromising contests since 1975.

There will be escape valves aplenty there — but it will also generate a lot of heat. The *Financial Times* may have got it right and we should hesitate to close our eyes to the wisdom of the uncluttered outsider; but heat and brittleness do not go well together — and Labour is not yet dead.

Duncan MacIntyre . . . back in the warm spot.



Economics

Alleviating poverty: What to give where to take

by **Brian Easton**

HAVING established in last week's article there is substantial relative poverty in New Zealand, and that the evidence points to this poverty having socially unacceptable consequences, we may ask what the research suggests about eliminating poverty.

In the short term, however, the more limited objective of taking economic pressure off the poor may be more appropriate.

I have already argued that a rise in the nominal wage rate is unlikely to be effective because it will not discriminate between poor and affluent households.

Rather, it is necessary for the Government to use its redistributive powers.

Moreover, in my opinion it is not *responsible to* advocate proposals for the poor, while vaguely arguing that they should be financed by plundering the rich. Instead, I want to specify those groups which might reasonably be asked to take a lower income to provide more for the poor.

This also means I am not making vague claims that we can eliminate poverty with increased economic growth. With appropriate distributional policies that may be so, but we are not going to get much growth over the next few years.

My groups which might reasonably be asked to take an income reduction are:

- The high-income elderly, by bleeding out more of national superannuation for high taxpayers;
- *At the* 1979 Housing Finance Conference, Ray White Governor of the Reserve Bank, made a number of interesting proposals to raise the saving rate for childless couples purchasing houses which still have not been implemented;
- The current income tax rate on low incomes should be raised from 14½ per cent to 20 per cent, but the range over which this applies increased from \$5000 a year to \$6800 a year (so that most full-time workers would pay the same amount of tax).

The *effect of this change* would be to raise more taxation revenue from supplementary income recipients; that is by people whose income supplements the family income.

In advocating this change, I am aware that students, beneficiaries, and many women workers will be worse off. I would, therefore, advocate higher student bursaries, an improved abatement system on benefits, and more economic rights for married women and *mothers;*

- There remains a case for partially bleeding out the family benefit for high income families, although such a change should also include a clear statement of the principle that family tax concessions and benefit are the joint of income of the parents;
- In other places, I have advocated on efficiency grounds the removal of various anomolies and peculiarities in the tax system on unearned income and fringe benefits. The changes I have in mind would also increase revenue to the Government a little;
- There is also a place for the application of "user-group-pay" levies so that groups which are particularly demanding of Government services should pay for them, rather than leaving it to general taxation. Where a group is poor, it is better they should be compensated by increased in*come.*

These seven proposals should generate sufficient revenue to be used for taking pressure off the poor, particularly poor families. Particular measures can be divided into those which deal with particular areas of acutest concern to the poor are health, education, and housing. These could be *relieved by:*

- A general medical services benefit for children which covered the full cost of the visit;
- A programme parallel to the Accident Compensation Scheme to cover long-term disability from sickness in families;
- Funding to schools so as to eliminate the need for school fees in state schools;
- Inflation-proof lending for housing (again as advocated by the governor of the Reserve Bank) which will reduce housing outgoings for young families;
- The extension of the present additional benefit for high housing costs to families who are renting from the private sector;
- A progressive rating structure, so the more people in the house, the lower the local authority rates.

In addition, general income redistribution measures could include:

- A higher family benefit which would be increased by line with inflation;
- A family benefit which increased with the age of the child;
- Increased income tax concessions for families;
- A reduction of the 35 per cent income tax rate (say to 30 per cent) and an increase of the top of its range (say to \$15,000 a year) with appropriate alterations for upper scales.

Rather than the last four measures, however, I would advocate a comprehensive reform including the introduction of a tax credit.

A tax credit is an amount credited to (weekly) income after income tax has been deducted. A level of credit would be dependent on family circumstances ranging from zero for single persons to perhaps \$40 a week or more for large families.

Where the income tax paid is less than the tax credit, the take-home pay of the worker would exceed the wage paid by the employer, so that it is a form of negative income tax.

It would be appropriate to integrate the family benefit into the tax credit, providing it was clear that the tax credit was a joint payment to the parents.

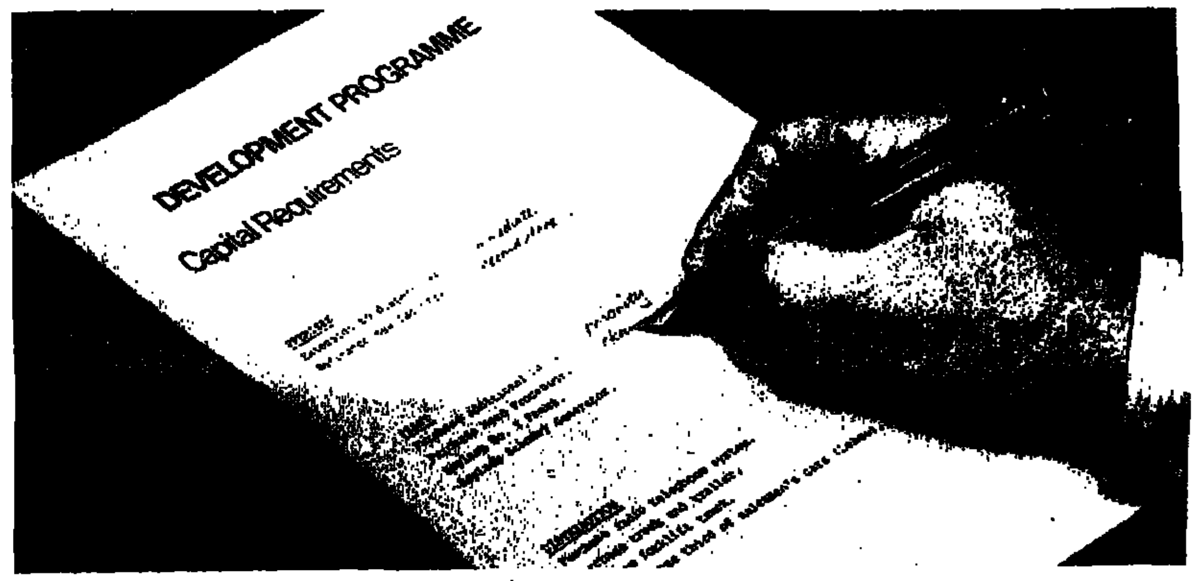
As indicated in point ●5, it would be appropriate to bleed out the tax credit for high-income families.

The exact balance between these various proposals from needs to be negotiated between Government, the unions, and the employers.

It is important that unions and employers are involved. At present their means of influencing the income distribution is virtually limited to setting wages and prices.

The effectiveness of such an approach is the equivalent of trying to build a house with a blunt axe.

Unions have a legitimate concern with poverty. If they are excluded from participation in effective distributional policy formation, they are likely to wield their blunt axes.



Aviation

DC8 freighter plan grounded

AIR New Zealand's DC8 freighter service may not get off the ground.

Discussions were under way at Air New Zealand House last week over whether to proceed with the plan to run an all-freight service between the United States and New Zealand and other destinations.

An announcement would be made soon, said corporate and public affairs director Craig Saxton — "right now I would have immense difficulty in answering any questions about it".

An Air New Zealand DC8 was flown to Tulsa, Oklahoma, earlier this year for a $1.5 million conversion — strengthening the floor and altering fuselage access. It was due to be picked up last week for delivery back to Auckland, but it is still in Oklahoma.

Saxton said the problem was economic. "The economics have deteriorated since the plan was first mooted," he said.

Some airline staff are rumoured to be bitter about the lack of forward planning on the project.

If Air New Zealand decides that the idea must be scrapped, the problem will be what to do with the plane. There is a glut of ageing first-generation jets on the second-hand aircraft market.

The engines of the DC8 series 54 aircraft are a further complication. Environmental Protection Agency rules prevent it from flying in the United States without substantial anti-pollution modifications after 1984. This would further reduce interest from potential American buyers.

Air New Zealand plans to get into pure freight have been dogged with misfortune. Conversion of a passenger DC8 several years ago was stopped at an early stage when its DC10s were grounded after the Chicago crash because it needed the passenger capacity.

Other airline sources say that the idea won't work — the DC8 cannot carry enough to make a profit because fuel costs have climbed so high.

Arrival of the company's 747s will greatly increase the airline's freight capacity, another factor in decision-making.

Some Air New Zealand staff say the company should have moved positively into freight years ago, but it has now "missed the bus".

Meanwhile Pan Am is doing well from air freight, which accounts for 15 to 20 per cent of its revenue out of New Zealand. Apart from freight capacity on its three weekly passenger flights, Pan Am has a weekly all-freight 747 service.

All airlines are working their freight capacity to the maximum with the onset of the kiwifruit season. Japan Airlines has run two special kiwifruit DC8 charters.

Spare seats likely on Air NZ American services

AIR New Zealand will have at least 500 additional seats available each week, on services between New Zealand and North America after it takes possession of its first three 747s next month, according to the advance schedules.

The three 747s and six DC10s in the airline's fleet represent enormous overcapacity and could lead to a fares war in the region.

One strong rumour is that the company will announce soon the beginning of services through Los Angeles or San Francisco to London. This would help increase aircraft utilisation. It is understood the decision has already been made to add San Francisco to the North American destinations.

The overcapacity problem is largely due to Air New Zealand's inability to get rid of its DC10s on a world second-hand aircraft market which is heavily in buyers' favour.

It is the airline's blue riband North American route which will feel the brunt of this over-capacity. At present the route is serviced by 12 DC10s each week and this number of frequencies has given Air New Zealand a commercial advantage. This represents 3240 seats a week.

But from the end of July, a daily 747 service is scheduled, with three DC10 flights. This represents 3778 seats — a 17 per cent increase. And still, with the current size of its fleet, the airline will have spare capacity.

Pan Am has also announced that it will route a fourth jumbo each week out of Australia through New Zealand, adding further to the seats available by around 150.

Subject to Government approval Pan Am's new service will begin on August 3, and the new flight, from Auckland to Los Angeles, will originate in Sydney every Monday. Pan Am has other US flights on Sunday, Wednesday and Friday.

Meanwhile, Continental Airlines has already cut the first-class fare from the United States to New Zealand by about 40 per cent, a fare which has been matched by Pan Am on its jumbos through Hawaii but not on its 747SP which provides the only non-stop service south-bound from the American mainland.

A fare war seems likely to develop from the overcapacity — with an increase in discounting already rife both here and in Australia.

As competition developed, the pressure on Air New Zealand to use 747s for all frequencies on the money-making North American route would increase and even more seats could come on stream.

The travel trade newsletter, *Travelgram*, estimates that Air New Zealand would be able to put up to 1000 extra seats on the route from later this year. It says three through services to London could help mop up some of the airline's excess capacity.

Air New Zealand has an arrangement with Boeing under which the 747 manufacturer has guaranteed to help sell the DC10s, but on the market at the moment the chances of an adequate price or financially acceptable leasing arrangement are slim.

If the DC10s are still around next year when two more 747s are delivered, Air New Zealand's fleet surplus would be catastrophic.

Customs crackdown

CUSTOMS officers have been cracking down on Air New Zealand crew.

Their searches have not only been uncovering undeclared or prohibited goods, but also goods pilfered from the aircraft by flight crews.

Airline policy is to dismiss staff caught smuggling or pilfering.

Customs can prosecute only for smuggling. When customs officers find pilfered goods, they can notify the airline, which can then prosecute for theft.

Customs officers in recent weeks have been involved in:

- Charging a senior Air New Zealand staffer with illegal importation of heroin and morphine, allegedly worth between $500,000 and $1 million. The court ordered suppression of the name of the man, who is defending the charge.
- Recovery of a counterfeit Customs stamp. Officials are investigating how the stamp might have been used in a smuggling operation involving airline staff.
- The apprehending of a senior cabin services employee with three tins of lager, eight sachets of coffee, and four bottles of liquor from airline stores. Customs alerted Air New Zealand and the man was sacked.
- Investigations into a smuggling operation bringing in diamonds from Hong Kong and allegedly involving airline staff.

Sharemarket

Small investors profit from institutions' cheer

by Klaus Sorensen

THE sharemarket's performance in the last year has put a gleam in the eyes of the institutional investment managers. And that's good news for the ordinary investor.

Traditionally the market has always been able to rely on a certain amount of investment support from the institutions but returns in the past year seem to have convinced them equities are going to be No 1 for the next couple of years.

The big life offices are in the enviable position of having such a large and continuous income that they are often hard pressed to invest it.

A flat sharemarket and depressed property market, not to mention unpredictable fixed interest rates in the 1970s, meant the institutions often found it difficult to invest in these areas without causing distortions — by virtue of the size of their intended investment — and yields were seldom up to scratch.

But the sharemarket's growth in the last year has solved a lot of these problems.

Though yields have fallen with the market rise — and interest rates have continued to remain firm — the institutions find they are able to make up more than enough ground through capital gains from share trading.

This particularly applies to the resurgence of the life offices' superannuation fund activities and also the investment-linked super programmes where performance is all the more important.

But there is still a serious scrip shortage and the problem of too much money chasing too few shares remains.

But the mergers of Fletcher Challenge and Tasman and the two insurance companies has eased the situation with a dramatic increase in the number of shares available in each case.

The institutions have also moved back to the "majors" where more shares are available after having flirted with the smaller export-oriented growth stocks for a couple of years.

The forestry stocks are back in fashion because they are promising the growth which they didn't seem capable of in the early 1970s.

But as the major development projects loom, with their attendant equity requirements, the institutions are also having to reconsider their investment policies.

The Prime Minister felt the need to give the life offices a lecture last year when, following the Fletcher-Carter Holt takeover debacle, he warned them that they should not depart from the traditional "passive" investment roles.

And he fired a warning shot across their bows in the form of a hefty one per cent increase in the life offices public sector investment requirements.

But that puts the institutions in a dilemma, they have to perform to the expectations of policyholders, and achieve the even higher expectations of members of their investment linked super funds.

And that can't be achieved through passive investment.

One answer is to buy, and sell, bigger parcels of shares, more often.

National Mutual took the plunge last year with the decision to pick up the 17 per cent Carter Holt stake previously held by New Zealand United Corp and Jarden's nominee company.

In Australia it is not uncommon for the institutions to buy shareholdings which could provide effective control of a company, and to seek board representation as well.

The current scrip shortage has been exacerbated both by the recent spate of takeovers, and by the trend towards larger shareholdings of the 15 to 20 per cent variety.

The Wattie-Goodman share swaps last year reduced the number of shares available to other investors, and indirectly pushed prices up.

The second part of Muldoon's criticism of the life offices last year was that they should direct investment into more productive areas, rather than into existing shares where they merely pushed prices up.

But it could be argued that a greater degree of institutional investment in the market will have advantages for both companies and ordinary shareholders.

The more shares the institutions buy (and the larger the parcels) the worse the scrip shortage and the higher prices go.

This, in turn, lowers yields and enables companies to borrow money more cheaply on the sharemarket by making share issues at a greater premium, and therefore at a lower effective interest rate.

And the higher the premium companies can charge in a cash issue the bigger the share premium reserve, so the company's ability to pay tax free dividends to shareholders is improved.

Because the institutions do not want tax free dividend payments the tax free dividend capacity of companies would stretch further as the institution's shareholdings grew in proportion to that of ordinary shareholders.

And the more cash issues made and the more institutional support for those issues, the greater the institution's contribution to productive investment.

And so on, and so on.

But because the National Mutual has discarded the traditional institutional policy of holding small (2 to 6 per cent) investments in a large range of companies, does this mean the other institutions will follow?

The answer is almost certainly yes, but the institutions will be wary of causing distortions to the market, and even more wary of being seen to be too aggressive.

The AMP Society released its December 31, 1980 annual report and investment portfolio details last week, and *NBR* took the opportunity to check on the investment policy of the sharemarket's largest customer.

The AMP probably has the most widely spread portfolio and can therefore expect to match any rise that the indices produce.

But while he admits the AMP could be accused of simply "buying the index", investment manager Grahame Hambling is confident that if a suitable opportunity arose for the AMP to buy a larger than normal stake in a company (say 20 per cent) his board of directors would give their approval.

But Hambling adds a number of riders:

An investment of that size would probably require board representation and above all, the investment should have the blessing of the directors of the company concerned.

And from that point of view the AMP would be most likely to buy an existing shareholding (as the National Mutual did with Carter Holt) rather than trying to assemble a parcel through a first-come-first-served bid on the market.

But in the meantime, the AMP has done so well in the last year it is looking forward to the 1981 results with relish.

Hambling said last week his society was pretty convinced "equities are still the thing". Of total investments, some 40 per cent is government-directed — 30 per cent to public sector securities and 10 per cent to housing and finance — and of the remainder some 25 to 30 per cent goes into shares.

Continued on Page 14

The week

The business week

Alex Harvey Industries Ltd: net profit for the year ended March 31 was $15.3 million (last year $16.5 million). A final dividend of 10 cents will be paid on July 31.

Allied Mortgage Guarantee Co Ltd: net profit for the year ended March 31 was $191,482 (last year $166,940).

Autocrat Sanyo Holdings Ltd will make a one-for-five bonus issue, subject to approval by the annual general meeting.

Christchurch Coal and Gas Co Ltd: net profit for the year ended March 31 was $251,290 (last year $345,948). A final dividend of 8 cents will be paid on July 21.

Christchurch Press Co Ltd: net profit for the year ended March 31 was $691,837 (last year $609,420).

R & W Hellaby Ltd: unaudited net profit for the six months ended March 31 was $1,322,000 (last year $1,097,000). An interim dividend of 7 per cent will be paid on June 5.

Manawatu Knitting Mills Ltd: unaudited net profit for the six months ended April 19 was $160,000 (last year $148,600). An interim dividend of 3½ cents will be paid on July 17.

Marac Holdings Ltd: net profit for the year ended March 31 was $5,360,000 (last year $3,971,000). A final dividend of 11½ per cent will be paid on July 24.

Motor Holdings Ltd: unaudited net profit for the year ended March 31 was $3,916,780 (last year $3,187,986).

Pavroc Holdings Ltd: unaudited net profit for the six months ended February 28 was $138,297 (last year $68,063). An interim dividend is delayed pending the outcome of the competing takeover bids, now reduced to two with the withdrawal of rebel director Mr C L Paterson and David Lloyd Investments Ltd.

Quill Morris Ltd's merger with **Fletcher Humphreys Ltd** has been approved by the Examiner of Commercial Practices. The company will be renamed **Quill Humphreys Ltd.**

A Singapore property group revealed itself as the mystery buyer behind an on-market bid for 24.9 per cent of **Vacation Hotels Ltd. Sommerville Properties Ltd** has also agreed to buy the **Auckland Intercontinental Hotel.** And **Bateman Catering Organisation Ltd** acquired Inns of the Pacific — a subsidiary of **Trans Holdings Ltd.**

Taylors Drycleaning and Laundry Services Ltd: net profit for the year ended March 31 was $189,500 (last year $168,200). A final dividend of 7 cents will be paid on August 27.

Teletherm Industries Ltd: unaudited net profit for the year ended March 31 was $110,134 (last year $479,833). A final dividend of 11 per cent will be paid on July 28.

UEB Industries Ltd: unaudited net profit for the year ended March 31 was $10.3 million (last year $10.06 million). A final dividend of 6.5 cents will be paid on August 14.

Economic indicators

OVERSEAS orders placed in March rose 32 per cent in February to $208 million according to a Statistics Department survey. For the March quarter there was also an increase from $447 million in 1980 to $512 million. Oil orders rose 8 per cent.

APRIL building permits showed an upward trend. The Government statistician estimates 1242 new dwelling permits were issued, an increase of 150 on April 1980 and above April 1979. For the year ended April the decline continues from 18,851 in 1979 to 14,593 in 1981.

THE general price index showed its lowest increase since the September 1978 quarter. The last March quarter rose 3 per cent, bringing the rate for the last year to 17 per cent, down from the 20.6 per cent between the December quarters.

RETAIL sales in the March quarter were 14.1 per cent on the same quarter a year earlier, a volume increase of 3.4 per cent since December 1980.

THE migration outflow reduced slightly in the year ended April over the previous year, from 19,336 to 18,616. In the month of April there was a net loss of 19,968, compared with 16,807 a year earlier.

Institutions' investments

From Page 13

Shares and property provide the "greatest growth potential", according to the AMP, and although the yields on shares may be a little lower than the net yields on property, the last year's experience has shown capital profits from share trading are way out front.

The AMP lifted total new policies written by 21 per cent to a massive $1300 million in 1980, while income increased 17.8 per cent to $229 million, made up of premium income of $133 million and investment and other income of $[illegible] million (up 23 per cent).

Hambling points out the equity involvement does not dilute the returns to current policyholders due to the less effective yields, but for this reason the AMP has adopted a policy of writing up the value of shares (and property) and distributing the unrealised gains to policyholders as terminal bonuses.

In 1980 the board wrote up the value of the share portfolio by $2 million (the market value of the AMP share portfolio rose 70 per cent to $157 million in 1980) and the property portfolio by $3 million, which led to a 50 per cent increase in terminal bonus rates.

Not surprisingly the Fletcher Challenge companies were the star performers in the AMP portfolio by the December 31 1980 balance date.

But perhaps more important is an even higher growth rate has been achieved by the stock in the first four and a half months of 1981.

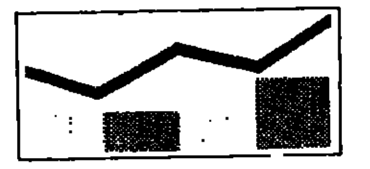
Fletcher Challenge has naturally been the star performer. The combined market value of the AMP's Fletcher Challenge, and Tasman shares as at December 31 1980 was $35.5 million, but by last week the AMP's 16.1 million shares in the merged Fletcher Challenge Company had a market worth of $43.5 million — a breathtaking $8 million paper profit.

But even excluding the FCL giant, the society has so far this year made $7 million on its nine other top stocks.

NBR's calculations show that, compared to its December 31 market value figure, the AMP's investment in NZI has grown $420,000; Carter Holt has risen by $1.1 million; Carter Holt is up $430,000; Wattie is up $905,000; NZ Steel $572,000; Alex Harvey Industries million; NZ Forest Products $1.4 million; Fisher [illegible] and Freightways $417,000.

But to be fair, a deduction must be made for the AMP's big losers. The society has taken a "real bath" this year on its Winstone holding, which has decreased in value by around $567,000.

Stock Exchange weekly review



FOR WEEK FRIDAY MAY 15 TO THURSDAY MAY 21

	Last sale	Week's high	Week's low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last sale	Week's high	Week's low	Turnover
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Last sale	Week's high	Week's low	Turnover
SCOTT,50C	101	105	101	25000
12.5% CONV PR	92	92	92	100
SELBY	370	...	...	0
SKELLERUP,50C	350	350	350	9500
5-7.5% PR	37	...	...	0
SMITH BIOLAB,50C	168	168	167	8200
12% CONV PR	147	147	145	3500
SMITHS C.M.	160	160	160	48700
STH. BRITISH	418	...	...	0
STHN. CROSS HOTEL	145	145	145	1000
STHN CROSS MING.,20C	40	49	40	36850
S.F.M.	252	257	250	339700
SPEDDING, 50C	74	74	70	178380
12% CONV PR	75	75	75	1300
STEEL & TUBE, 50C	130	130	130	27400
SUCKLING	165	165	165	100
TAYLORS	170	170	170	300
12% CONV PR	150	...	...	0
TELTHERM	150	150	150	200
12% CONV PR	115	...	...	0
T J EDMONDS	300	300	300	4600
TOLLEY	188	192	187	6000
TOUR FIJI	36	...	...	0
TRANS ASHBURTON, 50C	61	61	61	200
TNL GROUP, 50C	111	114	111	144200
10% CONV PR	84	84	84	400
12% CONV PR	98	98	98	200
TRANS (NTH. CANT.)	130	130	130	600
13.5% CONV PR	115	115	115	300
15% CONV PR	108	108	108	1100
U.E.B.,50C	112	116	111	61700
6.5-7.5% PR	115	...	...	0
12% CONV PR	96	96	96	4200
15% CONV PR	65	65	62	7000
UNION STEAM SHIP	82	...	...	0
5.5% PR	78	...	...	0
UNITED BLDG	105	105	105	1900
UNITED PUBLISHING,50C	290	290	290	17300
VACATION,50C	77	87	77	3600
12% CONV PR	60	60	60	1100
12.5% CONV PR	60	60	60	14200
WAITAKI-NZR	231	232	230	79400
11.5% CONV PR	180	180	180	3600
WALKER & HALL	450	...	...	0
WATTIE,50C	200	200	167	290900
12.5% CONV PR	98	105	98	37900
WELGAS	425	425	425	150
WESTBRIDGE	220	220	220	700
WILKINS & DAVIES	320	325	320	1500
5.75-7.5% PR	58	...	...	0
W.JEFFERY	140	140	140	100
12% CONV PR	143	...	...	0
WILSON & HORTON	455	455	455	5900
WILSON DISTILLERS	155	155	155	3000
WILSON NEILL	123	125	123	4900
12% CONV PR	155	...	...	0
WINSTONE,50C	70	73	67	125000
12% CONV PR	52	53	52	25900
WINTHS (NZ) PROPS, 20OC	65	...	...	0
5.75% PR	72	...	...	0
WINTHS AUST, 50C	245	...	...	0
WORMALD	305	...	...	0
5-7.5% PR	100	...	...	0
W.SUTHERLAND	110	...	...	0
YATES CORP	460	460	450	8500
CONV PR	170	170	170	100

Exchange rates

AS at May 21, NZ dollar sells at:

Britain	.4204
US	.8772
Canada	1.0551
Fiji	.7351
France	4.8101
Greece	48.45
Hong Kong	4.7542
India	7.3303
Ireland	.5455
Italy	996.52
Japan	191.77
Malaysia	2.0302
Netherlands	2.2226
New Caledonia and Tahiti	87.46
Singapore	1.8754
South Africa	.7326
Spain	79.34
Sweden	4.2726
Switzerland	1.7808
West Germany	1.9991
Western Samoa	.8853

Oil exploration

Petrocorp woos oil explorers to club together

by **Warren Berryman**

THE state-owned Petrocorp Exploration Ltd is attempting to get the licence-holders in the Government's latest $500 million oil exploration programme to club together, to cut costs.

Petrocorp Exploration, a major partner in most of the new licence areas, has been telexing the new concession-holders asking for co-operation in a bid to cut exploration costs.

A major cost in running seismic surveys is mobilisation and demobilisation of a seismic survey ship.

If agreement can be reached among the various licence-holders, one ship could run seismic survey lines across several areas.

The data could be cut up and handed to the various licence-holders.

This would save money on shore-based navigation systems.

Survey accuracy depends on three shore-based high-frequency radio transmitters sending out signals to be picked up and triangulated by the ship's computer.

The margin of error, even hundreds of kilometres out to sea, is only about 25 metres.

Sharing ship and on-shore costs would reduce exploration costs considerably.

Whether such a deal can be struck between Petrocorp and private explorers depends on the privates trusting a state corporation with their expensive data.

But the explorers may well appreciate the possibility of being able to reduce costs on the preparatory work on their licences because of the massive drilling costs involved.

While seismic work costs about $800 a line kilometre the drill holes cost from $15 to $20 million each, so it is unlikely that any of the new oil licensees would be able to go it alone.

One option is to find joint-venturers and spread the financial burden. Another is to take the exploration to the drilling stage and then farm the prospect out to an oil major.

Or the new explorers can boost their funds with a public float.

NBR spoke to Otter Director Tony Radford earlier last week about his company's intentions.

Otter owns Pan Pacific, which in turn controls Stewart, which landed area 113.

Radford said his company's philosophy was to spread the risk over as many oil exploration plays as possible.

Pan Pacific generally worked with joint venturers during the exploration phase, then farmed the prospect out to a major when it comes time to drill and develop an oil field.

Stewart Petroleum is likely to bid for further licences in the Great South Basin.

Stewart and Beaver also won area 110 further offshore.

In licence area 113, Mineral Resources has a 14.4 per cent interest through to development and 11.8 per cent thereafter. Petrocorp has a 40 per cent interest.

In area 110, Mineral Resources has a 24 per cent interest.

Stewart Petroleum, a newly formed $100,000 capital company, is owned 60 per cent by Pan Pacific Petroleum NL of Sydney and 30 per cent by Mineral Resources. The remaining 10 per cent shareholding is held by New Zealanders and an Australian.

Pan Pacific, a $A7.7 million paid-up capital company, has taken over all the Australian exploration interests of Otter Exploration NL of Sydney.

Otter owns 38 per cent of Pan Pacific and 35 per cent of Mineral Resources.

Otter directors and major shareholders, Radford, and David Kennedy, own Basin Australia Ltd.

Area 122 went to Cue Consolidated NL, Oil and Minerals Quest NL, and Charter Oil and Gas Pty Ltd.

Cue Consolidated is a newly formed New Zealand public company also having interests in Central Otago lignite exploration.

Shares in Wellington-based Cue Consolidated are held by seven nominee shareholders for Cue Minerals NL of Melbourne.

From Page 1

One source close to Stewart Petroleum said he wouldn't be surprised to see a race develop but "if you want to be in exploration in New Zealand long-term, it's a question of being best, rather than first".

A broker said he thought the floats were "inevitable" and placed a three to six-month time frame on the Cue and Stewart floats.

He said he believed the "penny-dreadfuls" had already started to pour into the country — "they're not interested in the prospects; the first question they ask is, 'how much money can we raise?'"

But while investors will need to be wary of some of the floats, one geologist told *NBR* he believed Tricentrol was taking a cautious approach to floating.

"They're just not interested in floating until they are well down the track, even though they might be under a bit of pressure from their juniors (junior partners). They want to get the seismic and drilling programmes well under way first."

He said 114 was undoubtedly the top prospect: "It's the prime block — they are virtually half-way towards a viable oil field from the word go."

Disclosure of Interest: Klaus Sorensen has an interest in Mineral Resources shares, but the writers have no interest in any of the other companies mentioned specifically in these articles.

Marketing

Opportunities match frustrations in US business

by **Graeme J Davidson**

TWO New Zealanders have tested America's claims to be the land of business opportunity — and won well.

In five years, car dealers Tony Shelly, 43, and Neville Crighton, 35, have turned an ailing car dealership in Honolulu into the biggest volume Mazda outlet in the United States.

They have recently added one of Hawaii's prestige import car dealerships to their growing empire, bringing their total sales in the last year to well over US$60 million.

The burgeoning Hawaiian empire of Shelly Motors Inc and its holding company, Shelton Corporation, with its state-wide Mazda distributorship, several dealerships, used car lots, offices, and warehouses, barely made it off the ground.

"I had heard that the competition was going to be tough here," Shelly reminisced, "and that about 90 per cent of American companies fold within a year of registration. I was just lucky not to be among them."

When Shelly took over the Hawaiian Mazda distributorship in 1975, Americans had just started to become fuel-conscious, and there was little demand for the comparatively expensive, gas-guzzling, rotary-engine Japanese import.

Within the first nine months of operation, Shelly claims, he lost two-thirds of his capital and managed to sell only 350 cars. The turn-round came when Mazda introduced its fuel-efficient piston models, especially the GLC and more recently the very popular RX7 sports car.

Experiences gained from the Shelly family's Wellington car business, along with the family's previous involvement in the Hawaiian car industry, helped to prepare Tony Shelly for his present venture.

The injection of Neville Crichton's capital and the formation of a partnership between the two, after Crichton sold his used car operation in New Zealand, also helped to pull the floundering Hawaiian venture out of the mire.

The biggest advantage in setting up in business in the United States, Shelly believes, is the ability to borrow large sums from the banks.

"The American financial institutions, and especially the banks," he says, "are not as restrained in their lending practices as they are in New Zealand. Banks in the United States are much more competitive, and will make their lending decisions on purely commercial grounds.

"You can show them your forecasts, plans, and previous experience, and they will make their decisions on what they consider the risks and your prospects to be.

"If they believe in you, then they could give you as much as $8 or $10 for every dollar you have raised, compared with the New Zealand banks where there is little competition and you could be lucky to get 80 cents for every dollar of capital."

It would be more difficult to repeat the Shelly Motors Hawaiian story in 1981. Money is now in short supply, and with interest rates in the United States running as high as 20 per cent, few could afford to service large loans.

Any advantage that might be gained from the availability of credit is offset by the costs and time involved in setting up in business, Shelly found.

"Contrary to what many New Zealand business people think," Shelly claims, "there is a lot more red tape here than in New Zealand. Americans might pay lip service to the idea of free enterprise, but in practice there is a myriad of bureaucratic requirements.

"You have to worry about local, state, and federal regulations. It's a jungle! The bureaucratic machinery is complex and time-consuming," he says.

"It can take several years before you can open the doors for business. You can't afford to make a mistake, as it can set you back several months, so you end up paying colossal fees, often in excess of $100 an hour, for legal and other experts to guide you as smoothly as possible through the maze."

The complexity of the bureaucracy, Shelly maintains, can also be seen in the tax requirements.

"As well as capital gains," he says, "there are payroll taxes, state taxes (6¼ per cent in Hawaii), and a progressive federal tax on profits. Overall, the tax advantages would be slightly better in the United States than in New Zealand.

"American taxes can be high," Shelly adds, "but the levels at which they are applied are also higher. A corporation would need to be making a profit of around $500,000 to $600,000 a year before it would be paying 50 per cent in taxes."

He also felt that federal tax concessions for companies employing certain groups of employees (such as handicapped veterans), employee retirement, and profit-sharing schemes, are worthwhile incentives for both the company and the employee.

While it is not required by law, most firms fund health and dental insurance for their employees.

"As there is no socialised medicine in the United States," Shelly says, "most corporations find that they have to pay about 4½ per cent of their payroll to cover their employees for around 80 per cent of their health costs.

"My employees are non-union but they still expect this," he adds, "and if you don't have the insurance you would have to pay higher wages or else take poorer-quality staff."

When Shelly began his operations in Honolulu he was surprised at how reluctant his staff were to share in the decision-making process.

"I made some terrible mistakes at first," he says. "After I had made them I would turn to my department managers and ask them why they didn't warn me, or offer a point of view. They would just look at me with surprise, as if I was passing the buck," Shelly says.

"They would tell me that as it was my business and my money on the line, it was up to me to give the orders and for them to carry them out.

"In New Zealand," he says, "my staff were not backward about discussing policy. They are not used to that here and it has taken me quite a while to get the staff involved in the decision-making."

Unlike most New Zealand companies, Shelly says, American companies tend to aim for lower profit margins and a fast turnover of stock. This usually means a lot more hard work, he says, but he believes that because there are few restrictions on the hours of operation, it can pay off.

Analysing annual accounts: Optical Holdings

by Klaus Sorensen

OPTICAL Holdings Ltd shareholders should be praying for rain — and strong sunshine.

This is because a recovery from the company's profit downturn may depend on two new franchises — Christian Dior sunglasses and Knirps umbrellas — as much as anything else.

The company has suffered a continued, and potentially serious, erosion of operating profits in the past four financial years. In the December 31 1980 year, Optical's operating profits were almost invisible to the naked eye.

As reported, the company's net profit climbed slightly to $173,000 from $169,000 in 1979.

But the latest accounts show that, rather than achieving a degree of recovery, the company's trading position worsened quite markedly, and it was export tax credits which saved the day.

The report shows operating profits before tax fell from $179,000 to $92,000 but an export tax credit of $81,000 ($10,000 provision in 1979) reversed the situation, leaving the $173,000 net profit.

In addition, extraordinary items of $43,000 (due mainly to a Development Finance Corporation suspensory loan being turned into a grant) lifted total profits to $216,000, compared with $173,000 in 1979.

The sunglasses side of Optical's business is relatively seasonal. In 1979 by far the bulk of the company's profit was earned in the second half of the December financial year.

But the 1980 year saw a big first-half profit of $105,000 ($17,500 in the first half of 1979) and a fall in second-half profits from $151,500 to $68,000, including export tax credits.

The company has been quite frank in its disclosure for the latest year, and the sparse looking report is surprisingly informative.

The five-year review shows that while total sales increased from $2.8 million in 1976 to $6.1 million in 1980, pre-tax profits have steadily fallen.

The 1976 pre-tax of $407,000 fell to $245,000 in 1977, then to $228,000, $179,000 and finally $92,000 in 1980.

Chairman J G Tuck says in is review the first half featured a 55 per cent increase in sales and a sixfold profit increase, but the second half produced "very disappointing" results.

"The depressed state of the New Zealand market during the second half-year caused a substantial drop in profitability in that period."

Total sales were up 30.2 per cent with export sales rising 122 per cent. Domestic sales increased 18 per cent, after rising 46 per cent in the first half.

Tuck says domestic sales showed only a marginal increase in the second half and, although sunglass sales were up on 1979 values, volume sales were down.

And to add to the problems, optometrists reported a 20 per cent decline in sight-testing volume during the second half. This was unexpected and adversely affected production and sales of spectacle frames, "particularly in the last quarter of the year," says Tuck.

Optical has three subsidiaries in Australia and Tuck says much new business was obtained in 1980, including contracts

Sunglasses . . . sales fall-off

for a range of sunglasses and spectacle frames.

But Optical's real problems lay in the manufacturing area. Tuck says that by the end of 1979 stocks of finished goods were at a very high level. While most of these stocks were sold during the 1980 year, "the need to reduce stocks combined with a fall-off in domestic demand during the second half-year resulted in the factory operating at below break-even point in the second half".

The Sydney subsidiaries increased sales 20 per cent, but after a good first half, sales declined to a marginal profit by the year's end. But unprofitable lines have been eliminated and overheads reduced, which the company hopes will restore profitability to "an acceptable level".

In total, the Australian companies contributed a $6600 profit — compared with a $20,000 loss in 1979.

Tuck also notes that group expenses increased by 26.5 per cent and that the bulk of this increase was attributable to a rise in interest costs of 85 per cent. This reflected the cost of holding high stocks of finished goods carried over from 1979.

But the company's inventory problems are not over.

Tuck explains "high stocks of spectacle frames and sunglasses held at retail level resulted in our sales of those products for the first quarter to March 31 1981 being down on 1980", but he says this trend was budgeted for.

He says that for some time the company had been looking for a winter product to sell to pharmacy outlets. The company has found the answer in the Knirps brand of umbrellas, and a successful indent promotion for the umbrellas in August produced a "sell out" for March 1981 delivery.

As a result, total domestic sales for the first quarter of the current year were up 14 per cent, and sales are budgeted to continue their improvement.

The profit and loss account shows that while gross profit rose 19.7 per cent, from $1,986,000 to $2,378,000 expenses were up 26.5 per cent from $1,807,000 to $2,286,000.

The main contributor to the increase was an 85 per cent increase in "other" interest costs from $130,000 to $240,000, though interest on fixed-term loans was virtually stable and lease costs were down slightly.

Selling, distribution and administration costs appeared to get away on Optical, with a 29.4 per cent increase from $1,304,000 to $1,684,000.

The balance sheet shows bank overdraft down from $928,000 to $814,000 by year's end, while creditors and accruals were up from $1,089,000 to $1,345,000. Stocks were reduced from $2,450,000 to $2,257,000 while debtors and prepayments were up from $971,000 to $1,250,000.

Total secured loans were reduced from $224,000 to $92,000, largely because the export suspensory loan was turned into a grant (as a result of the company achieving a certain level of exports).

The portion of loans repayable within 12 months is up from $56,000 to $71,000 while the amount repayable within two years is down from $57,000 to $21,000. No loans are repayable past two years (compared with $111,000 in 1979).

The current interest rate on secured loans is between 12 and 14.5 per cent, compared to a range of 10.5 to 13.5 per cent in 1979.

The note on stocks shows raw materials were up slightly from $524,000 to $552,000, work in progress was $81,000 ($31,000), finished goods at balance date were down from $1,727,000 to $1,495,000 and goods in transit fell from $168,000 to $125,000.

The $81,000 taxation credit was arrived at after the normal 45 per cent tax provision on operating profits, of $41,000, less export incentives and allowances of $103,000, taxation under-provided in previous years of $2000, and the $21,000 specified preference dividend deduction.

The extraordinary items of $43,000 comprise the DFC loan grant of $84,000 less deferred taxation thereon of $38,000, goodwill on consolidation written off of $20,000, and an unrealised exchange gain of $17,000.

High drama at high dam site over contract

by Ann Taylor

THE high dam at Clyde on the Clutha River is serving as the backdrop to an industrial drama which could affect the tenor of relations on the different projects.

Ministry of Works employees and Contractors Federation members both want to pour the 900,000 cubic metres of concrete. Both parties have made position statements over the last few weeks with, as yet, no action.

Tenders will be called in July for the dam which will generate the electricity necessary for the controversial aluminium smelter at Aramoana to survive dry years, according to last week's energy advisory committee report.

The Combined State Unions and the Federation of Labour have strongly objected to private contractors doing that work, which has traditionally been handled by the Ministry of Works and Development.

During the FOL conference, president Jim Knox arranged a lunch-hour meeting with Works Minister Bill Young. Young said then that pressure from the Contractors Federation in its most sustained lobbying effort ever, resulted in a decision that the work would be going to private contractors.

PSA president David Thorpe said the moves to abandon the ministry in major construction works was a "disastrous situation".

The FOL and Labour Party conferences, while objecting to the farming out of Government works to private enterprise, did not come out specifically against the contracting of the Clyde dam.

And the Contractors Federation has not replied to Thorpe's intimation that industrial action will be taken on the Tongariro and Waitaki schemes in protest.

There is a feeling among contractors that any comment would inflame the situation.

The Government, until now, has bought industrial peace — state houses and rates have "cost the taxpayer heavily" according to one contractor.

And it is no skin off the contractors' noses if craft or workers unions members do the work. They will probably be the same workers, according to contractors.

Other contractors point out the Ministry of Works will oversee the whole job. Whereas previously it has designed, engineered, built and consulted — virtually adjudicating its own work — it will now be in the position of acting strictly as consultant to the private contractors.

The Contractors Federation mounted a campaign three years ago to put concerted pressure on the Government. The campaign is somewhat punctured by Baker Construction Ltd's manager Jim Ross who argues that the Ministry of Works is best equipped to build the dam.

Ross argues that overseas interests do not need to be brought in to pour concrete; something the Ministry of Works has demonstrated ability for on the Waitaki scheme.

Ross has been to see Young and put his case to the Contractors Federation to no avail. He says the industrial problems will be very real if the work goes to private contractors.

"It will be fair bait for the unions; the union structure under the Ministry of Works has not, to date, presented any problems."

The Workers Union secretary on the Clyde site, Jim Tongue, says the Government's intentions are still unclear. He points to publicity given to the need for 100,000 skilled workers and says, "What about us?.

"We know Huntly was about to come on in April 1978 and there's still no power coming out." He blames that delay on the use of private contractors.

Tongue has 270 members on the site at the moment which he says will only increase to 400 if private contractors come in. If the MOWD did the work he says 600 to 650 members would have been required.

"If the Government would give us the go-ahead we'd go ahead and build it now," says Tongue. The tenders, to be called in July, will not be let until February 1981.

Ban hits hard

THE Federation of Labour's ban on trade with Chile is jeopardising the country's shipping links with the whole of South America, according to Bob Owens, chief executive of the Owens Group of companies.

The Owens Group is agent for Lloyd Brasilaero, a Brazilian line which last year began a monthly shipping service to South America for New Zealand exporters.

Lloyd Brasilaero's last ship picked up only 10 tonnes of cargo here on its last voyage.

Owens said calls to this country will become less frequent if there is not enough cargo to make it pay. The service operates between Brazil, New Zealand and Australia.

But without the Chile ban, Lloyd Brasilaero could serve the entire South American coast through trans-shipment via Valparaiso, Chile.

Lloyd Brasilaero's subsidiary, Lloyd Libra, serves 28 South American ports out of Valparaiso.

"Valparaiso is the key port on the west coast of South America. With this so-called ban on Chile, the FOL is banning the whole of South America," Owens said.

"If we were free to use Valparaiso we could have picked up cargo on that last voyage for Bolivia, Columbia, and Peru," he said.

Wine

Not enough staff to police regulations

by Frank Thorpy

THE Health Department may have insufficient staff to effectively police the wine regulations.

The better part of the 1980 Food and Drug Regulations, which turned the illegal into the legal by allowing water to be added to New Zealand wines, was the labelling provision. Section 228E, paragraph 5, states: "The name or description of the wine shown on the label shall not include any reference to a single variety of grape unless the wine has been manufactured from not less than 75 per cent of juice derived *from that* variety of grape."

This, in theory, precluded winemakers continuing with, say, the bad habit of labelling a wine Riesling, that is, made from the aristocratic Riesling grape of Germany, when, in fact the wine was made from the Muller-Thurgau grape commonly known as Riesling Sylvaner in New Zealand.

Health Minister George Gair, when announcing the new regulations, said they would be vigorously policed and is reported to have said that two extra officers would be posted to the Auckland district for that policing.

But, according to local officials, the promised two officers have not as yet materialised and there are now appearing on various wine sellers' shelves 1980 wines from at least six different companies labelled "Riesling". The small print on the labels say they are made from "Riesling Sylvaner" grapes — a clear contravention of Section 228E.

Is this the thin edge of the wedge?

Real estate

Home Locators scheme upsets establishment

by Lindsey Dawson

A NEWLY-established homeseekers' listing service has come under fire from the Real Estate Institute president, Merv Neill.

The company, Home Locators, in Anzac Avenue, Auckland, charges homeseekers $30, which gives them three months access to the Home Locator files of vacant flats and houses.

Neill told *NBR* he felt the company, which was started by Australian Cliff Mearns in early February, may be in breach of Section 22 of the Rent Appeal Act, which makes it an offence for anyone to take money for offering to obtain a dwelling place.

"The intention of the law is that people should not be put in a position where they have to pay for your services unless you are a licensed real estate agent," he said.

Licensed agents charged the equivalent of one week's rent to clients only after they were satisfied, he said.

He said he had heard several complaints about the set-up, and welfare workers had expressed misgivings about the operation.

"But it's not for us to invoke the law," Neill said. "We can only discipline our own members. I feel that if the present law can't do the job it should be changed."

Home Locators' managing-director Mearns told *NBR* that Section 22 of the Act had been brought to his attention "and our solicitors are looking at it".

"But if we're in breach of it so may be a lot of other firms, including the newspapers who take money for listing properties," he argued.

The first line of brochures handed to would-be clients explains that Home Locators is not a real estate agent and explains that it is merely a listing service.

"We make no guarantees at all, and explain to our clients that it is up them to phone landlords and check out the properties," Mearns said.

The vast majority of those who registered with Home Locators found somewhere to live within the three months, he said, and it was up to the home-seekers themselves to have the initiative and the will to get out and look.

"We have new listings on our files every day, and clients can come in and use the phones in our office to make preliminary inquiries," he said.

Such listing services were commonplace overseas, said Mearns.

His firm had come to new Zealand because it had heard there was no such set-up here. He would soon visit Wellington and Christchurch to look at establishing Home Locators there.

He said that he had had no complaints from clients.

Mearns said he believed the service was cheap: "$30 for three months works out at less than the cost of two newspapers a day."

He said the firm had about 80 vacant properties on its lists at present, and showed *NBR* files showing 511 properties listed and taken since he set up the business. This represents an income of at least $15,000 since the firm opened its doors.

Landlords who list their flats and houses pay no fee; they contact Mearns after the property has gone.

Home Locators has a file of house-dwellers willing to share accommodation, but Mearns said that not many of his clients were interested. "I think the shortage of rental accommodation may be partly due to this reluctance to share," he said.

Neill told *NBR* that it was "a sad state of affairs" that when people had to spend years gaining qualifications to work as real estate agents, people could set up business to do the same sort of job with no qualifications. Said Mearns: "If they're going to go to the trouble of getting qualified they should do more to help people find homes."

He said a number of members of the Real Estate Institute have referred people to his firm.

Don Cattanach, the Auckland deputy-manager of the Housing Corporation, which administers the Rent Appeal Act, told *NBR* the corporation had investigated the Home Locators' scheme.

"On the information we have at this stage we are satisifed that they are not in contravention of the Rent Appeal Act."

Engineering firm refuse to pay staff training levies

by Allan Parker

SOME engineering companies are breaking the law by refusing to pay compulsory levies for staff training — and getting away with it because it would cost the Labour Department far more to enforce the payments.

In some instances, companies are refusing to pay just $15 a year as their contribution to Engineering Industry Training Board finances.

Labour Department attempts to make them pay up would involve a far more costly legal action through the courts. The department has this power under the 1978 Industrial Training Levies Act.

As a result, the EITB has been forced to cut back on its training programme and shelve plans to produce training manuals for factory workers.

The non-payment problem is also embarrassing at a time when the Government is trying to relieve a chronic shortfall of trained engineering workers for the major projects programme over the next decade.

The fast-track training scheme — SEATS — has already met with considerable employer resistance. Refusal to pay minimal training levies for the industry compounds that difficulty.

The EITB is funded both from industry and by the Government, through the Vocational Training Council. Traditionally, the Government grant to industry training boards has been about 90 per cent, with industry contributions providing the rest.

In the EITB case, the industry levy is budgeted between $5000 and $6000. Individual company levies are set by the number of employees.

Companies employing up to 10 people pay $15 a year, up to 20 people $30, 50 people $75, 100 people $100, 200 people $120, more than 200 people $125.

The levies have recently gone up and some 16 per cent of the employers have refused to pay their compulsory contribution.

Some have objected that they should not be classified as members of the engineering industry. For example, boatbuilders who use a variety of materials maintain they are not engineers.

The EITB has suggested these companies apply to the Labour Department for an industrial reclassification.

Vocational Training Council secretary Bill Graham said the Engineering Industry Training Board is one of four that fall within the Industrial Training Levies Act and therefore the Government can enforce employer funding compliance.

The other three are the apparel, textile and furniture industries. Employers in all four industries are registered under the Factories Act. The levies fall, therefore, on factory-based operations.

However, the other three training boards do not appear to have the same non-payment problem as the engineers.

Industry levies in other industries are not enforceable by law, according to Graham, because they are not factory-based.

The VTC has been trying "for some time" to find a way in which these boards could be assured of industry support, although some receive as much as 50 per cent of their funds from the industry members.

On-job training works out on big contract

by Lindsey Dawson

NEW ZEALAND'S problems in finding enough skilled staff to carry out the "think big" projects planned for the next few years are highlighted by the challenge posed for Andersons Engineering Ltd, of Christchurch.

Andersons, a member of the Ceramco group, won an $8 million contract for work at the Tiwai Point aluminium smelter. The trouble was they needed 50 extra welders and boilermaker's assistants to do the job, and there were none in sight.

Andersons surveyed the labour market and came up with what they saw as the best solution — to gather a team of unemployed workers and train them themselves.

"We've had great support and encouragement from the Labour Department and the unions in setting up the programme," said commercial manager David Band. "The Labour Department has found the men — and we're very pleased with the calibre of the people they've sent along — and they're also providing about 15 to 20 per cent of the $2500 to $3000 a man training costs. We also consulted the unions involved and they're bending over backwards to make sure that the job will be a success."

The company is employing the men for the duration of the contract, some 15 months, and has promised to do its best to find further employment once the job is over.

It involves the supply of cathode shell assemblies. It is the company's biggest contract yet and Andersons is spending more than $.5 million gearing up for the job, including the training programme and new plant and equipment.

The training involves engineering classes at the Christchurch Technical Institute, as well as company instruction.

But, says Band, it is "just as easy to train them as it would be to encourage people to come from other companies."

Doubts whether SPM will work for lamb exports

AGRICULTURE Minister Duncan MacIntyre will soon have to answer the agricultural riddle of the year — how he envisages his supplementary minimum prices scheme will work.

And farmers will also want definite indications whether he favours a marketing commission that could take the industry along the road to total, compulsory acquisition.

MacIntyre surprised farmers, freezing companies and meat exporters when he announced the Government's SMP scheme earlier this year at prices for lamb that seemed staggering.

The SMP for a PM lamb will be 145 cents a kilogram for the 1981/82 season, which starts on October 1. At the time of the announcement, the schedule price was only 110 cents, but it has risen a further 5 cents.

Optimistic prices were also announced for mutton, cow beef, bull beef and prime beef, although these prices are not causing the same concern as lamb.

MacIntyre saw the high prices as a spur to greater production, and at face value, that seems a reasonable argument.

But he has been noticeably short of explanations since, and both the farming and the meat industries want to hear soon just how he thinks his SMP scheme will work in relation to lamb.

Most observers in the industries simply do not believe that the higher prices will be reached on the open market.

Market returns will have to increase about 20 per cent between now and the start of the season, less than five months away. Once the effects of inflation on the cost of the freezing industry are taken into account, the optimism of the Government seems even more misplaced.

Currency is another important question. Even though the New Zealand dollar has been slowly devaluing, the value of the British pound has also been dropping, and that makes the situation even more impossible.

Will the Government simply devalue? That has been denied by Government spokesmen who would not want anybody to have advance knowledge of such a move.

All these factors are leading many to believe that the Government simply intends to directly subsidise the farmer by meeting the difference between what the schedule is and SMP.

Devaluation would solve the Government's problem only temporarily, anyway. Once imported costs on the farm started to rise because of such a move, probably four or five months later, any advantages would be overcome.

But direct subsidisation will also cause problems, particularly as the Meat Board and the Government are battling to persuade the United States not to impose duties on lamb because our exports to that country are heavily subsidised — at least according to the United States National Woolgrowers' Association's claims.

The association has filed a petition with the United States Commerce Department seeking punitive duties on New Zealand and Australian lamb imports which it says are heavily subsidised both by export incentives and agricultural subsidies.

The department, significantly, has already ruled that New Zealand's exports are unfair, but this country can still avoid duties if it can prove to the department's satisfaction that the imports are not harmful to the local industry.

New Zealand is basing its case on showing how much money it spent on promotion within the United States, and how this must have strengthened the American lamb market at a time when domestic stock numbers have dwindled drastically.

This country is trying hard to gain the right to an "injury" test, a right it does not have because the Government refused to sign a Gatt code on subsidies which outlaws export incentives on manufactured exports.

Undoubtedly, this country will be in an even weaker position if there is direct subsidisation of farmers' incomes through lamb kills.

It also raises the interesting questions of who will own the meat and how it will be marketed.

Will the Government simply pay out to freezing companies the difference? That would mean there would be simply no incentive to lift the schedule at all, regardless of market factors?

Or will the Government buy the meat outright from the companies and market it itself? *NBR* (March 30) reported how the Meat Board was thinking of setting up a meat marketing commission to handle certain markets — a move that some in the industry saw as the thin edge of the wedge for total acquisition.

Board chairman Adam Begg has since denied the board has any such intentions, and has reaffirmed the board's faith in the traditional free market system and meat exporters.

The Government might have different ideas, however, although it is doubtful that such an organisation could be successfully established in less than five months.

Moreover, the commission envisaged by the board seems aimed at Middle East and African markets where buyers insist on dealing with government or semi-government agencies. And even the board would be aware that it would have to fully explain its ideas to farmers before it started implementing them.

However, the saddest part of the SMP scheme is that it is only a short-term answer. It will lift farmers' incomes next year, but it will not control costs either on the farm or to and at the market place.

It will also call for a great injection of taxpayers' money — a dose the Government will be called on to repeat if it is not to boost confidence one year and lower it the next.

Transport

Targets must be set for urban operators

by Bob Stott

URBAN transport is being driven blindly.

World-wide experience shows that urban transport's customers either cannot or will not pay fares high enough to meet running costs, let alone to generate surpluses. *But lack of* profits is no excuse for failing to define objectives.

First, urban transport must show that it produces something concrete — rides within and to and from urban areas. Not as tangible as bars of soap, these rides nonetheless are the products of operators who run buses and trains, which cost *money to produce* and which are sold to customers for cash.

The effects of ticket sales are also tangible and — because the sale of rides is generally unprofitable — must be considered if operators are to set definite aims and objectives.

These are the targets set by the RATP (Paris Autonomous *Transport Authority) for 1990:*

- To save 60 million hours of travelling time a year;
- To "rescue" 500 km of road space, equivalent to 35,000 parked cars, by *persuading* car owners to leave their vehicles at home;
- To save 200,000 cubic metres (sic) of fuel per annum;
- To reduce general pollution significantly;
- To achieve a considerable improvement in the number of people who can get to work in 45 minutes.

Parisian transport planners believe the city's population will grow from 9.9 million to 10.5 million by 1990, that there will be a population fall in the inner city and a *significant* growth in the suburbs. Arising from this will be an increased demand for orbital (suburb to suburb) trips and an increase in off-peak travel.

These trends can be expected to apply in New Zealand cities which experience suburban growth and inner city decline.

The RATP targets are tangible. Transport *men in Paris can* judge if they are running an effective operation. If the rate at which parking buildings are constructed in the inner city is falling, then RATP is working. If fuel sales decline, RATP is working. If commuters are getting to work more quickly, RATP is working.

It becomes easier to assess the benefits of urban transport and to see how those benefits equate with costs. If commuters' time is worth anything, and if that time is being saved, then there is a net benefit in return for money spent on urban transport. If inner-city land is being used for something more productive than car parking, then there is a net benefit... and so on.

But calculating benefits gained in return for money spent on urban transport does not solve the problem of who is to pay the cost of urban transport. In Paris, 60 per cent of capital cost is met from state and regional funds. The balance comes from loans.

Operating costs are another matter. The Parisian commuter meets only 38 per cent of operating costs, but planned fare increases will boost that share to 44 per cent by 1984.

The second source is the recovery of loss of receipts through concession fares. Such fares are bought by regular commuters, and the RATP levies all employers in the region to meet the cost on the grounds that concession fares enable an employer to tap a much larger labour market than would otherwise be the case — he benefits, so he pays.

The third source is the recovery of concession fares allowed to large families, the handicapped and the aged. The money is recouped from social security funds.

Finally, there is what the French call the compensating indemnity. Obviously there is a gap between a fare level which would produce profits and the actual fare level which is set "according to the public interest". This gap is covered by the compensating indemnity, 70 per cent paid by the state and 30 per cent by the regional authorities.

In Wellington, the only New Zealand city with buses, trains, and an almost European level of public transport use, rail fares meet 46 per cent of operating costs (1978 figures) while city bus fares cover 55 per cent. Compare that with Paris's 38 per cent for both buses and trains, and the RATP's 1984 target of 44 per cent. Note, too, that the buses get 13.2 per cent of Wellington's total rates take (compared with 15 per cent spent on parks and reserves, for example).

New Zealand's Urban Transport Bill is an attempt to look at transport regionally, so that the cost of urban transport is shared to a greater extent by metropolitan areas rather than by the few local bodies in those areas which provide transport. It is also an attempt to better co-ordinate transport operators (*typically, local authority buses* and the Government's rail and bus services).

But the new urban transport authorities won't have set aims, objects and targets without which their operators will be unable to judge their performance.

The year's-end financial result of a local body bus operation adds up to "we lost no more than we expected", but does nothing for the self-esteem of the transport managers or staff, and nothing for the transport operation's image.

Judging the true worth of an urban transport operation requires answers to: "What would be the cost to the city if the buses stopped? What would be the cost of the alternative of no public transport at all?"

The cost would be high. Many suburban dwellers would find that the increased traffic congestion and high costs of car commuting were intolerable. They would leave if they could and mid-city employers would find it harder to get staff. There would be demands for more roads to the central city and more parking spaces. Land taken for motorways is lost forever as a rateable asset, so rates would rise as more land went under concrete. The cost probably would be higher than the cost of persisting with public transport, but it would be difficult to calculate.

Rather than embark on a theoretical exercise to find what would happen if there were no public transport, it would be better to set targets as in Paris. Then the success of the city transport manager who increased sales (attracted more passengers) would be obvious.

Currently, the only way a transport manager can be regarded as effective is to reduce expenditure, even if that results in fewer sales, which makes a mockery of the reason for the existence of urban transport services.

The quality of urban transport management in New Zealand seems up to world standards. The fare levels, too, recover a higher portion of operating costs than many overseas operations. Safety *standards and comfort levels* are high — New Zealand has a higher percentage of seated commuters) than in most *developed countries.*

All that's lacking is an attainable target . . . we must tell our urban transport operators *what they should be trying to* achieve.

Wellington's "big reds" . . . a lack of direction?

For years, the doctor's waiting room and Reader's Digest have been synonymous.

While it is gratifying to think that we have given relief to countless anxious and ailing citizens, our image to the fit and healthy people in business and advertising may have been negatively affected.

With this in mind we undertook a survey to determine the truth.

Our researcher called at 21 doctors' rooms. Women's magazines were waiting patiently in 19 alongside newsweeklies in 17. The Digest was only in 8 or 38% of waiting rooms.

Apart from establishing that the majority of The Digest's 880,000 readership* does not come from the indisposed, drawing conclusions from this startling survey is clearly difficult.

Perhaps a little check up of the women's and newsweekly magazines recent performance in New Zealand might be useful. From a purely medical point of view of course they have been showing some curious symptoms.

Fluctuating and conflicting reader--ships along with ailing circulations over the past three years are enough to make even the most placid of media executive's blood pressure go up.

The Reader's Digest on the other hand is in the peak of condition.

A consistently growing circulation and readership, both unaffected by cover price rises and an advertising volume that has doubled in under two years.

A vital, buoyant magazine with no signs of fatigue or neurosis.

In total a healthy picture which can give confidence to client and agency alike. Particularly when considering that before an advertisment can do well, so must the medium it is placed in.

Reader's Digest

*McNair Surveys 1980/81

Women's magazines outscore Digest in doctor's waiting room survey.

Admark

Anger at TV rules

by Lindsey Dawson

SOME advertisers and ad agencies are angry about new rules for booking advertising which have been imposed by Television New Zealand.

Advertisers now have to book on a rolling basis 12 months ahead. If they cancel within 10 weeks of the booked time, they must pay cancellation fees.

Before the new rules were introduced last month, cancellation fees were payable only if ads were pulled out within six weeks of the allotted screening times.

"I think that the problems which TVNZ is trying to avoid will only be compounded by the new system," said Ray O'Connor, group product manager of Johnson's Wax, whose TV advertising budget for the the coming year totals more than $1 million.

The long lead-time and the inflexibilities of the booking system would lead to problems, said O'Connor.

"No company is going to put up a million dollars in the hope that everything will be right.

"We are a multi-product manufacturer so at least if something goes wrong we can switch to another line to advertise. But what if you're going to produce a new car and the whole thing gets held up because of a strike in England or somewhere, and you have to cancel your advertising late?

"I think these new rules will lead to people keeping their money very close and looking *carefully* at alternatives. The newspapers could do very well out of it.

"It will be extremely difficult to plan advertising 12 months ahead when we won't know for sure what programmes our ads will be placed around. We are told that a certain time slot will be a situation comedy or a police drama, but we won't know whether it will be a high-rating or low-rating show."

O'Connor said that manufacturers were already examining alternatives to television.

"Everyone I know is looking seriously at other media," he said. "TV advertising is getting a bit like the oil situation.

"A few years ago the alternatives to oil were too expensive to consider, but now we're looking at all sorts of different things. If TV advertising gets too difficult the same thing could well happen in the marketing field."

TVNZ director of sales and marketing Richard L'Estrange told *NBR* the new moves were designed to "smooth out the whole operation with the intention of benefiting the advertiser."

"Previously we accepted applications at the end of the year from agencies for TV time for the next year, and we would then go through the process of allocating and distributing that out," he said.

"Last year it took the form of a store-front operation on the computer terminals. It led to a number of difficulties. The sheer volume of work put a heavy load on computers and caused problems for everyone — the ad agencies and ourselves.

"So instead of trying to cope with 12 months' applications at once, we are spreading the load."

He said the new scheme should benefit advertisers who wanted to book late. "It will enable us to see where availabilities lie. There are a number of advertisers who do not necessarily find it possible to book a long time in advance and cancellations will give them the opportunity for shorter-term booking."

NBR understands that the corporation has had trouble with agencies "shadow-booking" — that is, booking more time than they necessarily need and then cancelling just early enough to avoid paying a cancellation fee, but too late for the time to be taken up by another advertiser.

The new 10-week space might allow more last-minute juggling.

But other advertisers believe that if people get the idea that more late-booking opportunities will be available, they will put off booking at all until the last 70 days — and if they can't get in will switch to print advertising.

Agencies don't wish to "queer their pitch" with TVNZ and generally don't wish to be quoted. But some have expressed anger at TVNZ's attitude.

"We provide their bread and butter and there's nothing we can do about this situation. We just have to like it or lump it," said one account executive.

"All I can say is roll on Channel Three so that we can get some competitive element into this."

The price of making a sales pitch on TV is also concerning advertisers. A 30-second slot in the 6.30 news is now $2340. Next to a prime time evening show like *The Sullivans*, it is $1940.

Some ad agencies have complained to TVNZ and to "the four A's", the Accredited Advertising Agencies Association.

President Jim Belich told *NBR* that the Four A's had discussed the new rules with TVNZ. "Our executive is sensitive to the problems that some members have as a result of the changes," he said. "It has raised various issues with TVNZ and will continue to do so. In the course of discussion and after hearing explanation of reasons, the Four A's has had no option but to accept the decisions made by TVNZ," he said.

He said that in some ways the new system looked better than last year's "when we were queuing up at the computer."

ANZA (the New Zealand Advertisers' Association) had also agreed that it "will see how it works out," said Belich.

Investment plug

by Gordon McLauchlan

A SPECIAL section in the American magazine, *Nation's Business*, next month will tout the virtues of New Zealand as an investment venue for American companies, according to the Auckland president of the American Chambers of Commerce in New Zealand (Amcham), Paul Norling.

Norling said Amcham "has been instrumental in arranging for the special section" in what he says is the world's biggest business magazine "with a circulation of 1.3 million of America's business leaders" which is "450,000 more than *Business Week*, the second largest".

The image of New Zealand in the United States seems to be getting continual subliminal polishing from small pieces of good news from prestigious authors. While I was in New York earlier this month:

- The *New York Times* carried the eulogy of Enzed by James Reston.
- The *New York Times' Book Review* lead story was about a biography of New Zealand words wizard Eric Partridge and mentioned that his successor as king collector of "cliches, neologisms and nonce words" is yet another Kiwi, Robert Burchfield.
- The recently issued paperback edition of the much-admired book, *The Return of Eva Peron*, by V S Naipaul, carried the following gratuitous comment: "Argentina is a simple materialist society, a simple colonial society in the most rapacious and decadent phase of imperialism. It has diminished and stultified the men whom it attracted by the promise of ease and to whom it offered no other ideals and no new idea of human association. New Zealand, equally colonial, also with a past of native dispossession, but founded at an earlier imperial period and on different principles, has had a different history. It has made some contribution to the world; more gifted men and women have come from its population of three million than from the twenty-three millions of Argentines."

Expatriate Kiwis say that was a good week, but agree that similar small plugs for the homeland are not all that rare.

New man at O and M

by Lindsey Dawson

THE cost of producing advertising in New Zealand is "alarming" says Ogilvy and Mather's new chairman and chief executive officer Mike Robinson.

Newly arrived from O and M Australia, Robinson says that in many cases ads can be produced in Australia at two-thirds or even half the cost of the New Zealand equivalent.

"For one of our Perth retail clients we produced seven 15-second taped commercials in one day's shoot for a total cost to the client of $3500," he said. "I suspect that the New Zealand cost would be much higher than that."

Robinson replaces Ken Brady at O and M, who has become chief executive of a new chain of agencies, called Meridian, in South-east Asia. The chain is owned by O and M but has been set up on a competitive basis and will allow the group to take on business which would previously have been of conflicting interest.

Robinson comes from South Africa, but has worked all over the world.

O and M in New Zealand has an impressive client list, including the Mazda Corporation, P & O, Unilever, the BNZ and Shell and "very healthy billings to the order of $8 million.

"But we would like to do better," Robinson said. "We have been in something of a trough period, but all the signs are indicating that it is now over."

He would like to increase the agency's PR activities, and hopes to generate more push into retail, recruitment, rural and direct response advertising.

Direct response was an increasingly successful form of reaching specific markets, said Robinson. "One ad, which appeared only twice in the national press, resulted in sales of $125,000 for the Jaggard coin company."

Robinson has been puzzled by newspaper regulations regarding retail and recruitment advertising in New Zealand, which bar agencies from getting commission.

"I find it outmoded by world standards," he said. "Agencies which are prepared to develop their skills in these areas have every right to be rewarded for their efforts."

South Pacific

NZ's $6 million Fiji investment — what went wrong

by Warren Berryman

LAST week NBR reported how a major New Zealand foreign aid project — a Fiji pine-planting programme — turned sour when British interests, after American intervention, won the contract, confidently earmarked for New Zealand companies, to process the wood. This article backgrounds the project.

THE Ministry of Foreign Affairs and the Forest Service ploughed $6 million into the Fiji Pine Commission on the assumption that a New Zealand company would be involved in the harvest and production of *the resulting* wood.

But British-owned BP Southwest Pacific has beaten New Zealand companies to the contract.

Foreign aid designed to help the native Fijians resulted in a "disastrous alienation" of the Fijians from the Pine Commission and from New Zealand aid people.

Geoff Fischer, former manager of the Pine Commission's information services section, returned to New Zealand recently with some answers as to what went wrong.

"The Forest Service, with a powerful de facto influence on the commission's affairs (the general manager of the commission is a Forest Service officer and another Forest Service officer sits on the board) must accept some responsibility for the disastrous alienation of the very people whom the scheme was designed to help," Fischer said.

"What went wrong? The answer is simple: a failure on the human relations level.

"Aid officials were either oblivious to or unable to remedy the increasing disenchantment and frustration felt by landowners and local salaried staff of the commission.

"Aid projects are always fraught with peril for both the donor and recipient. For a start, aid officers are generally very highly paid by local standards, come to expect high living standards, membership of exclusive clubs, domestic servants, and in short, all the paraphernalia of colonialism.

"Colonial attitudes inevitably creep in, and are used to justify the glaring discrepancies in income between expatriates and locals.

"Local talent tends to be undervalued while expatriates in key roles land most of the professionally challenging, and thence career developing, assignments.

"Sometimes, too, personnel who due to incompetence or other factors are an embarrassment in their own country, are conveniently shipped off to an overseas aid project, where they manage to effect extraordinary levels of damage.

"On top of all this there is the ever-present potential for culture clash. Ironically, in Fiji this most often takes the form of conflict between the traditional Christianity of the Fijian village and the atheistic materialism of European expatriates — a neat inversion of the 19th century situation.

"By failing to note signs of frustration and resentment among locals and by retaining the services of colonialists of the old school in key positions, Fiji pine management allowed dissension to grow unchecked.

"Enter American Paul Sandblom. His tactics were hardly subtle. A vigorous hearts-and-minds campaign concentrating on the Fijian attachment to his village and his Christian faith won Sandblom solid support for his proposal to develop low-capital-input village-oriented utilisation of the forests."

"The rest," said Fischer, "is history."

The Pine Commission, a statutory body since 1976, started as a Government-assisted programme to plant pinus caribaea in 1972.

The pines, *native of Central America*, were introduced on worthless eroded grasslands on the western side of Viti Levu — Fiji's main island.

New Zealand foreign aid in the form of money and Forest Service expertise has been ploughed into the scheme since 1972. Total foreign aid to date has been about $6 million.

A further $3 million in aid was expected over the next few years.

The Fiji Government invested about $20 million in the scheme. Finance was provided by the British Commonwealth Development Corporation.

Politically, the Fiji pine scheme had many advantages.

Fijian Indians, brought to the islands by the British *as indentured* labour, have taken over most of Fiji's commercial life, creating a huge socio-economic gulf between themselves and the indigenous Fijians.

Indians are the dominant group in Fiji's largest industry, sugar.

Pine-growing was the indigenous Fijians' answer to sugar. Pines were planted on unproductive grasslands owned by Fijian mataqali, the traditional land-owning groups, by villagers working for the Fiji Pine Commission.

The mataqali were given land rent and a share in the profits at harvest time.

Optimistic predictions put the eventual yield at more than 50,000 hectares of pines and about one million cubic metres of wood a year.

Now there are about 30,000 hectares planted.

For the next few years, the *yield should be between 20,000* and 30,000 cubic metres a year, building up to 200,000 cubic metres by 1985 — unless the Pine Commission is tempted to cut immature trees for an early return on investment.

According to a 1977 Ministry of Information handout: "The Government's over-riding concern in establishing the industry is to link itself as partners with the Fijian landowners . . . Landowners have indicated that a long-term stable relationship should result between them and the Fiji Pine Commission . . . Harvesting of pine will begin in 1981 . . . by 1983 a large industrial complex will be flourishing . . . Harvesting pine will be the third-largest single industry in the country."

Harvest time brought foreign interests in to bid for the wood and rapidly ended the era of stable relationships between the Pine Commission and the Fijian landowners.

Last year, the commission exported its first wood — about 15,000 cubic metres — to Japan. This unprofitable exercise showed up unforeseen costs resulting from a lack of local infrastructure to handle the crop.

Poor roads, untrained labour, *inadequate port facilities*, insufficient trucking fleets, and a lack of specialist services nobbled the export effort. The wood was eventually loaded on to the ships with forklift trucks.

The Fiji Pine Commission called for proposals. BP Southwest Pacific proposed a $F27 million sawlog, sawn timber, and fibreboard project to employ about 700 workers.

Rotorua forestry company M K Hunt Foundation Ltd proposed a $F133 million pine and bagasse pulp — fine and coated paper project to employ about 720.

Shell Fiji and NZ Forest Products proposed a $F115 million sawn timber and wood chips (for electricity generation) operation which would employ about 2700 workers.

The Pine Commission and its New Zealand Forest Service advisers were all set to give the deal to Shell-NZFP.

But an American company, Paul Sandblom's United Marketing Corporation, proposed a $F2.9 million sawlog, pulpwood, sawnwood, woodchip and furniture package to employ about 750 workers by 1992.

United Marketing's proposed $F2.5 million capital investment was far lower than the other offers. But United Marketing talked of a $50 million a year profit split equally between itself and the Fijian landowners.

Unlike the New Zealand and British bidders, the United Marketing Corporation went straight to the grass roots — to the Fijian landowners — for support.

While the British and New Zealanders were talking over drinks in exclusive colonial clubs, the Americans were promising a rosy forestry future to landowners and villagers.

United Marketing is said to be linked to the Phoenix Foundation, an extreme right-wing group with a long history of fomenting separatist movements in the Pacific.

The Phoenix Foundation tried to set up an independent republic on Minerva Reef until the King of Tonga put a stop to it. Then the foundation backed Jimmy Stevens' Vanuatu rebellion, which failed and landed Stevens with an 18 years' jail sentence.

The New Zealand Forest Service, the Fiji Government, Fiji Pine Commission senior management and their Canadian advisers, were all opposed to United Marketing playing any role in Fiji pine. They favoured the Shell-NZFP proposal.

The Fijian landowners, represented by four out of 11 seats on the Pine Commission board, backed United Marketing.

When the Fiji Pine Commission appeared poised to hand the deal over to Shell-NZFP, the Fijian landowners revolted. They blockaded the forests and brought the operation to a standstill.

The Fiji Government and the Pine Commission reacted swiftly and harshly.

The Government kept out United Marketing president, Sandblom, by denying him an entry visa on the grounds he had been convicted and jailed by a Texas court in 1965 of a $30 million securities fraud (known to Americans as the *Ponzi game*).

Sandblom charged the Fiji Government with political interference, which the Government denied.

Sandblom appointed Fiji's only independent MP, Ratu Osea Gavidi, as his company's liaison officer. The young Fijian chief has a forestry degree and is the Fijian landowners' representative on the board of the Fiji Pine Commission.

He was ordered out of Vanuatu in 1976 because of alleged links with the Jimmy Stevens seccessionist movement.

The four Fijian landowner representatives on the Pine Commission board boycotted a board meeting, demanding a written statement from the Government that there would be no political interference with the commission.

The Pine Commission swung its support from Shell-NZFP to BP, which was asked to do a *final feasibility study* on the end use of the pine.

But Gavidi and his landowners continued to blockade the forests in support of United Marketing.

Three weeks ago, Gavidi appeared in the Lautoka Magistrates Court on three fraud charges involving a total of $F24,000, allegedly misappropriated from a Fijian village trust account.

Meanwhile the Fiji Pine Commission sacked about 90 striking Fijian landowners who ignored an ultimatum to return to work. Other strikers were prosecuted for trespassing.

New Zealand forestry experts now claim the Fiji pine deal was no great plum anyway.

There is not enough wood to justify a pulp and paper industry, and the wood is probably too resinous for newsprint manufacture, they say.

These sources claim there will probably be enough wood available by 1985 to justify either a thermo-mechanical kraft pulp mill or a medium-density fibreboard plant — if the wood is not so resinous as to jam up the machines.

At any rate, the markets in New Zealand and abroad for TMP kraft pulp is not good. The New Zealand medium-density fibreboard market is probably over-supplied.

Computers

National Library gets computer cataloguing go-ahead

by Stephen Bell

THE National Library — given a recent go-ahead to put a building over its present hole in the ground opposite Parliament Buildings — will also be able, at long last, to exploit computer power in maintaining its catalogues.

Education *Minister Merv* Wellington has announced final Government clearance for the library to install $600,000 worth of computer software and terminals, to automate the management of its two million catalogue records.

Full implementation is likely to take about three years.

Until now, the National Library's catalogues have been maintained on a card system, with the exception of its list of serials (periodicals), which has been handled by the Government's Pipitea computer centre since 1979.

But *this was merely a* straightforward list, without the complex searching capabilities and comprehensive bibliographical information which will be provided on the new complete catalogue system.

The system will initially be used by National Library staff only, but has potential as the centre of a network of computer terminals allowing libraries around the country to pull off information.

This would ease the work of provincial libraries in maintaining their own catalogues, and will *greatly speed up the search* around the country for an individual book or periodical.

While previously this would have been a matter for library-to-library postal communication, the National Library database will ultimately be a "union catalogue" of holdings at all libraries throughout the country, requiring only one central reference.

But any network extension will require further authorisation, unlikely to be given until the present system has settled in.

Some libraries around the country have lost patience with the long wait and installed computer-aided cataloguing systems of their own. Many more have been waiting to see what the National Library would provide.

It is still unclear how long they will have to wait for *clearance for their own* terminals.

Apart from normal caution over implementing large computer systems, the main problem is one of security.

The central system will run on the Government's Cumberland computer centre, which contains information relating to the affairs of many other Government departments.

Naturally, security provisions are extensive, but there could be public misgivings over a terminal in the local library theoretically having access to Treasury information and public servants' payrolls.

It is likely that building of the network will require the library system to be shifted on to a small machine separate from Cumberland, and this would require approval of further finance.

District libraries would probably be expected to pay for their own terminal equipment to link into the system.

The first phase will give the National Library about six terminals into the database.

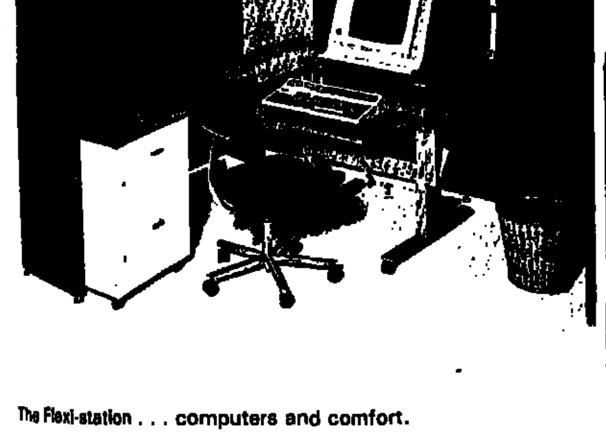
The programs to be used are ready-made packages developed by the Washington State Library, in collaboration with Boeing Computer Services. The system is used by more than 60 libraries in Washington and surrounding states, and was taken on last year by the Australian National Library, which began extending into a network at the beginning of this year.

Australia's use is clearly a powerful argument for adoption of the Washington system here, especially with moves towards closer trans-Tasman co-operation.

But the Washington package *has merits of its own, said* Wellington city librarian Brian McKeon. It was a properly organised software package, "made to be sold", strong on reliability.

Last year, the New Zealand Libraries Association's library automation group invited Washington State librarian Rod Swartz to New Zealand, to talk about the system to librarians, Government personnel and other interested parties (*NBR*, November 10, 1980).

Subsequently, the association declared its support for the Washington system.



The Flexi-station . . . computers and comfort.

Furniture — with an eye on VDU convenience

FURNITURE company Nova Interiors is launching an attack on the "office of the future". Its spearhead is what the company claims as the first New Zealand-produced piece of furniture specifically designed for visual display units.

Ergonomics, the science of correct design of equipment for the comfort and efficiency of the operator, has been attracting a good deal of local attention in recent months, but compared with overseas awareness, New Zealand is "backward", says Keith Mason, manager of Nova's new data division.

Awareness of ergonomics is low not only among management but also among the operators themselves, says Mason. "They accept headaches and discomforts as part of the job."

But with experience of inefficiently designed workstations, operators tend to move on more quickly. The resulting high staff turnover is also accepted by management as unalterable, says Mason. They do not realise that the problem would disappear with a little thought to ergonomic principles.

Design of Nova's "Flexi-station" began with a lower-than-normal chair found to be optimum for the operator's head position and eye comfort.

Once the chair had been lowered, the keyboard obviously needed lowering, without altering the position of the screen.

One of the earliest attempts at VDU ergonomics was the separation of keyboard from screen, but this could not be fully exploited with a single-level desk, Mason pointed out.

The Flexi-station provides split-level surfaces for screen *and keyboard* as well as optional independently adjustable side tables.

The surface for the screen itself has a tilt adjustment through about 18 degrees, to minimise the widely-criticised reflected glare problem.

Significantly, VDU manufacturers are themselves increasingly providing a tilt adjustment on their screens, but Mason predicted it would be a long time before the concept was accepted widely enough to make tiltable desk surfaces unnecessary.

The original model provided the tilt only backwards from the level position, but some screens were found to be tilted too far back already, so the Flexi-station will now have a two-way tilt incorporated.

A good many more articles of furniture specially designed for the computer-aided workplace can be expected from Nova's new division, but for competitive reasons managing director Raymond Reeby was not prepared to go into details.

The Flexi-station was designed with the aid of Swedish ergonomics experts and has been favourably commented on by ergonomists, trade unions and employers here. At least one computer manufacturer, ICL, is actively promoting the station along with its terminals.

"I'd like to go to the movies with you, but I'm having some cash flow problems this quarter."

Local Government

'Re-edited' report on Dunedin leaves red faces

THE Dunedin Metropolitan Regional Planning Authority's executive committee, a group of local body elected representatives, has found itself in an unusually embarrassing situation.

In February the committee discussed in secret a report from its professional officers on the population decline facing Dunedin and the effects this could have. The officers regarded the report as an important discussion document, and recommended making it public.

The executive disagreed. Quite simply, its members did not like what the report said. The facts were politically unacceptable and the committee sent the report back to the professional officers to be changed.

Without giving away the contents of the contentious report, executive committee member and local Chamber of Commerce president Jean McLean told the local press the document was being kept secret because "it could have upset the public of Dunedin".

But an "errant" source leaked the report to the press.

In a nutshell, the report did not project for the local community the employment benefits from the proposed aluminium smelter that local pressure groups had promised.

The original report, the one prepared solely by the professional officers, said Dunedin's population peaked in 1976 and would continue to decline for the next 20 years.

The population decline was due to fertility rates and migration, and the report said Dunedin was not alone, but simply in the vanguard of a natural situation that eventually would affect all of the country.

By 1996, the report said, a population the same size as 1976 would, because of demographic changes, provide a potential labour force 5500 stronger.

Then came the crunch. The report said the aluminium smelter, with its 3000 direct and indirect jobs in the Dunedin community, would have no greater effect than bringing unemployment back to its 1976 level.

It would not go any way to providing the extra 5500 jobs needed by 1996. It would neither halt nor reverse the decline, though it may slow it up during construction phases the report said.

"It therefore becomes imperative to encourage and provide for alternative means of livelihood, as well as the encouragement of industrial expansion," it concluded.

The report's recommendations said future planning "should be based on a frank acceptance that the total population is expected to decline". And it said this should not be viewed "pessimistically" but rather should be seen as a challenge.

The only challenge the executive committee saw was to have the report, as chairman Robin Archer put it, "modified", before the terrible reality became public.

Privately, some professional planning staff were angry that a technical report should be sent back for manipulation at the whims of laymen and politicians.

The professional officers, however, gave in and acceded to the demands without making a public fuss.

But while the report was being manipulated into its publicly acceptable form, a copy of the original document was leaked.

Contrary to Jean McLean's predictions, the public did not react hysterically to the upsetting revelations, though many people said publicly they were upset at being treated like fools by their elected representatives.

Local pressure groups, having only recently ironed over the disaster of Dunedin Mayor Cliff Skegg's now infamous "Dunedin is dying" gaff, were furious.

In a joint public letter, Manufacturers Association, Retailers Association, Chamber of Commerce, Otago Regional Development Council and Otago Council executives said the authors of the report had "done little or nothing to create an atmosphere in which employment can be sustained and if possible increased".

The executives said the planners ate into residents' "pride and confidence" in their city, and their report ignored the collective experience of their own "unselfish" efforts to promote the region.

Otago Council chairman Bill Christie said the report was "unacceptable" to the council.

He also claimed the leaking of the report was "a deliberate attempt to destroy investment confidence in the Otago region".

Archer justified his committee's stand because, "it was not the job of the planning authority to decide that a gloomy *future must be accepted*".

It was a lot of fuss over nothing, Archer said. After all, the committee frequently sent things back to its professional officers before they became public.

Both McLean and Archer pointed to developments that could presumably help turn the tide. They mentioned a proposed freezing works near Mosgiel, and a chip mill near Balclutha. They did not say both projects were still at the "sometime-maybe" stage, as opposed to the smelter.

As if to add insult to injury, the executive committee went ahead with plans to change the now public report, and a few of them met the planners to discuss the changes they wanted.

The results were an illuminating example of politics over professionalism.

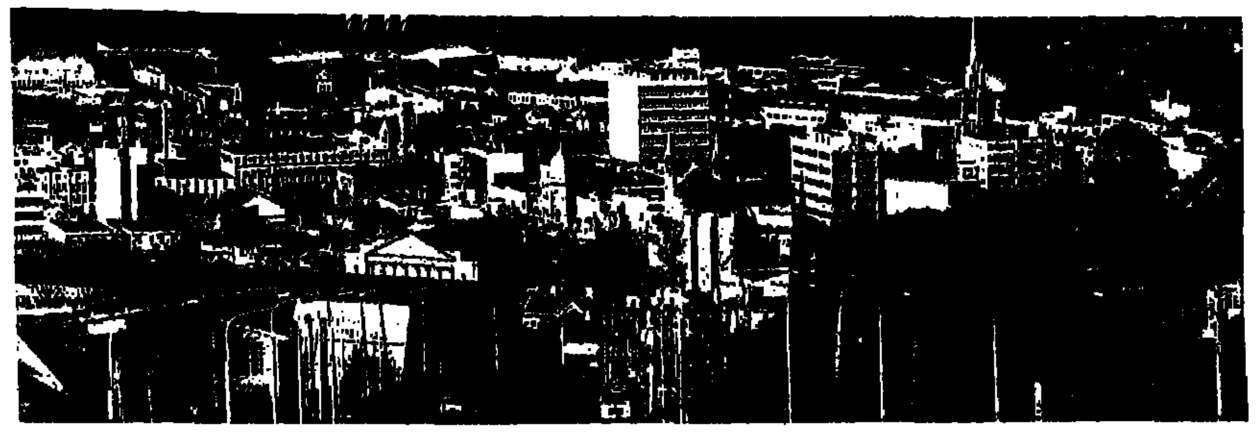
The new "brighter" version of the report was finally released. Some words were deleted here, qualifications added there, to tone things down and subtly alter the meaning of various parts.

And there were some significant changes. For example, a statement in the report summary was dropped completely. It read: "A smelter can therefore not be expected to halt or reverse the projected population decline in the long term, though it may delay it, and reduce its magnitude".

The original report said "the process of change cannot readily be altered either regionally or on a national basis." The new report added: "although Dunedin could benefit greatly if full advantage is taken of the growth opportunities provided by Otago's natural resources."

The addition "appeared to miss the point that population decline was a fact to be accepted".

A long section was added listing in a general sense specific areas of development that could provide jobs.



Dunedin . . . static population but no one wanted to say so

The section on unconventional alternatives was considerably watered down. And was it a Freudian slip that, to a suggestion of job-sharing so that more people could work without increasing the overall number of hours worked, the new report added "nor the cost to the employer".

A section was added to tell the public the population decline did not mean economic decline.

The overall result was doubtlessly belittling to the professional planners who prepared the original report. Thanks to the leaking of the original document, the effect on the public was little less than a giggle at political absurdity.

But it has left many wondering precisely how much manipulation is going on, and what credence the public can put on information the executive committee makes available of its own volition.

God's own economy, maybe — but can we afford to gamble our future on projects of uncertain benefit?

RECORD unemployment, continuing high inflation, out-of-kilter balance of payments, creeping devaluation, declining investment . . . a nice little mess we've built for ourselves in what National Development No. 2 Barry Brill likes to call "God's Own Economy".

The Government's answer to these continuing ills is the "Think Big" programme of major projects centred on energy resource development over the next decade. (Belatedly changed to "Think Growth" by Prime Minister Rob Muldoon because of the disquiet among suspicious small businesses and anti-big sceptics.)

The multi-billion dollar investment programme, the Government has promised, will rid us of our balance of payments problem, boost exports, create new industries and provide the jobs required for an expanding labour force.

To help the programme on its way the Government has given the project developers the National Development Act, a fast-track path through the planning thickets.

But the critics remain unconvinced, not all of them from the so-called crank element; many respected and qualified voices are questioning specific projects, the general "Think Big" thrust and its relevance to the New Zealand context. Undoubtedly, more investment in productive enterprise is needed if the economy is to provide those Midas-kissed results promised from the major projects.

In the final article of a series on the big project programme and problem issues associated with it, Allan Parker assesses the programme and the downstream impact.

GEORGE Chapman used to call it an economic miracle. Barry Brill likes to describe it as God's Own Economy.

They are the sort of descriptions that come back to haunt politicians in election year, particularly when the prayers remain unanswered and the country continues to grapple with record unemployment, persistent high inflation, creeping devaluation and declining investment.

Clearly, an economic resurgence is needed to revive the sagging business confidence and restore growth.

The Government is pinning its Lazarus hopes on the big projects over the next decade. National Party president Chapman has already outlined a seven-point campaign strategy which portrays the resource-based development as the coming saviour.

The multi-billion dollar investment programme, proponents of the projects maintain, will not only provide direct jobs exports. The economic activity will flow through the entire economy and return New Zealand to pre-1970s boom times.

Critics, on the other hand, argue that the projects will only create a few thousand direct jobs, will not provide downstream opportunities, will leave small businesses out in the cold and will destroy their local environment.

They even say some projects such as the second aluminium smelter are economically unsound, while others are inappropriate to the New Zealand scene.

Undoubtedly, investment in productive activity is needed if economic growth is to be increased. Victoria University Professor (and ex-Treasury secretary) Henry Lang: "We will not get out of the mess unless we invest more."

Lang's comment was made to a high-powered investment seminar in Wellington earlier this year. He added: "It's not important if we invest in large or small projects; it is important to invest in projects with an adequate return.

"So the big/small argument is unimportant."

An investment analyst agrees. He told *NBR*: "Given the state of the economy, the important question is if the projects are the best way to use our capital."

But in assessing large-scale projects, investment analysis must take account of factors that would not be applicable to smaller development decisions, Lang said.

The risks and uncertainties associated with capital investment programmes are multiplied far more with bigger projects, largely because of their longer-term nature.

(Economics lecturer Tim Hazeldine, a New Zealander now based in Canada, agrees. During a visit home earlier this year he told *Listener* readers: "The problem is that large projects are intrinsically riskier than smaller jobs. They take longer to carry out, so extend further into the unknowable future. And they tend to represent a bigger break with past experience; with the knowledge embodied in previous undertakings.")

And because of the unique nature of the big projects, Lang and other financiers maintain, these factors must be considered *before* specific project financial analysis begins.

Lang and other analysts list a number of crucial strategic questions that potential investors in large-scale, resource-based developments should consider.

- What will the long-term future demand and real cost for the product be internationally?
- Will new techology make the proposed plant obsolete?
- What will industrial relations be like, with their "inevitable" effect on time and cost overruns?
- What impact, if any, will foreign exchange fluctuations have in the long-term?
- What would be the effect of an unforeseeable natural disaster such as an earthquake?
- What environmental impact is likely and, in particular what will environmentalist and general public reaction be?
- Is there any risk of a change in the partnership between company and Government such as a change of government or a Government change in contract terms?

Other strategic considerations identified by experts follow similar lines. For instance, one Australian analyst insists that project promoters must "check that production capacity can be sold none having to sell some proportion of it off at a discounted rate".

Investment analysts also warn about in-company researchers who become enthusiastic about the project and its potential.

Says a Treasury official: "Project developers must keep on top of the analysts who are presenting black boxes they understand but no one else does. A danger is that judgments may be made by a few people who won't see the fruits of those judgments for 10 years or more."

"Best estimates then become hunches."

His answer: Don't rely on advice just from the proponents of the project and its technology. Get a second opinion.

Yet another investment expert: "Over an extended period, a large-scale investment loses some of its flexibility and can become a hostage of future events."

These international strategic questions may appear beyond the sphere of our own big projects, but applying them to a few of the proposed projects illustrates their importance.

In forestry, for example, New Zealand is planning a massive increase in timber output by the end of the decade, when supply will multiply three or four times. Processing of the timber is obviously the most financially rewarding way to dispose of this supply, the added value providing export earnings, jobs and technology.

Thus a new network of ... is planned for the next decade to take advantage of the increased supply.

But will other nations be prepared to sit back ... and take our higher-processed timber? Will ... want cheaper log timber ... themselves, saving import ... and providing their own ... Will other countries under... New Zealand? Will we be ... to sell what we want to ...?

New Zealand Steel, ... planning a major expansion with detailed financial an... due to be completed ... month.

The proposed extension ... the company's Glenbrook ... is, in fact, one of the biggest ... the major projects, currently estimated at $600 million.

But while New Zealand S... talks of expansion, steel ... dustries in other countries ... faltering under high energy costs and a falling demand in ... such traditional steel users ... the car industry.

The same high energy ... have hit vehicle manufacturers who are facing a reduced market and are looking ... substitute materials like plas... and aluminium to replace ... heavier steel.

In fact, the New Zealand Steel plan causes the most ... quiet among financiers ... bankers and industrialists.

Aluminium, too, is ... without a long-term cloud ... crystal ball. Since announce... ment of the Aramoana smelter, critics have consistently questioned assumptions that the potential is strong enough to support such a major expansion of the New Zealand industry.

Equally, does the country need a second smelter when Comalco is adding another potline to Tiwai Point and ... wanted to add another two?

The developed infrastructure already in place at Bluff ... have meant cost savings ... case, the anti-Aramoana ... paigners claim.

Environmentalists add ... an extended Tiwai ... the same output ... currently-planned three-... Tiwai and two-line Aramoana would not mean further ... vironmental damage.

Should the nation, therefore, be putting so many ... electricity-powered eggs ... aluminium basket?

If such questions ... round the individual ... they also hang over the ... gramme itself — its scale ...

appropriateness to the New Zealand scene.

Quite a few observers have viewed the "Think Big" programme as largely an electioneering ploy.

A leading financier has described it as a "horrendous gamble" by a government "playing politics against economics". (*NBR*, May 18).

A leading banker told *NBR*: "Take away the big projects and what sort of campaign platform has the Government got left?"

And Len Bayliss, the Bank of New Zealand's chief economist and a frequent critic of Government economic policy, told an accountants' convention last February: "The benefits from the major investment projects are difficult to assess with any degree of accuracy particularly in view of prospective cost escalations and labour shortages.

"On the limited evidence available the employment and net foreign exchange benefits appear relatively modest on a national basis.

"There must be considerable doubt that the major projects represent the optimum use of New Zealand's scarce resources of capital and skill — particularly in view of the very substantial foreign exchange earning and employment potential in the farming, farm processing and tourist industries; industries where New Zealand enjoys substantial international comparative cost advantages."

Although the Government remains deeply committed to the programme, it is sensitive to critics.

It is also anxious to steer voters' minds away from a vision of monstrous industrial mills holding power-line hands across the New Zealand countryside and leaving no room for the little fellow.

With increasing unease among small businesses, who are thinking Social Credit may be a better bet for their size of trading, Prime Minister Muldoon has attempted lately to switch the "Think Big" slogan to "Think Growth".

Not only the scale of the programme is becoming increasingly questioned; the downstream flow-on claims from the Government also raise eyebrows.

During the next 10 years, actual construction site employment amounts only to a few thousand people.

Because many of the plants are capital intensive, incorporating modern technology to replace workers, employment when they come on-stream will also be limited to a few thousand.

Downstream processing of output appears limited, too. For example, no industry has yet been found to work the output from proposed increase in aluminium output.

The Government, anxious to prove some new industry and jobs will be created, is wooing the multi-national car companies to set up an aluminium-based componentry industry for their "World Car" concept.

If a deal is negotiated, the plant would undoubtedly be capital intensive, incorporating the latest labour-replacing technology. Given the troubled industrial relations history of New Zealand's car assembly industry, neither Ford nor General Motors would be keen on a labour-intensive operation. And, because the "World Car" idea is intended to reduce reliance on car assembly in each country the companies operate, what trade-off would the New Zealand Government have to accept in return for a new component industry?

The proposal to establish a guinea-pig plant for producing synthetic petrol in Taranaki is another of the projects coming under scrutiny. For Mobil, the promoter of the scheme, New Zealand is an ideal place to test its theories on a commercial scale. We are tucked away in a remote part of the world and if the project proves an embarrassing mistake, the chances of international embarrassment are minimised.

But the plant represents an investment of hundreds of millions of dollars, a major influence on the economy.

What happens if the theory won't turn into practice? And how obsolete would the gas-to-gasoline plant become if the $500 million exploration programme found significant quantities of oil?

Clearly, there will be some downstream benefit. Capital injections into the national economy on the scale envisaged under the big projects programme will generate activity, bringing more employment and more business opportunities.

The Government has latched on to a multiplier effect of 161 new jobs for each additional $1 million of net foreign earnings. Thus, Prime Minister Rob Muldoon says, "We can expect 160,000 additional jobs by the end of the decade from the major projects covering energy, steel, aluminium, pulp and paper." (See accompanying story.)

Combined with extra jobs from farming and manufactured export increases, the grand total will be something over 400,000.

That figure is universally scorned outside political and pro-project circles. Even Cabinet ministers privately agree with a smile that the figures are, at best, "ball-park" estimates based on a best-possible scenario. They agree, too, that there is an element of double-counting involved.

But for a government faced with continuing unemployment at record levels, researchers who suggest the big projects will solve these problems are worth every one of the extra export dollars that will be earned.

Project developers, too, have not been slow in using the Government-supplied figure. For instance, Hugh Fletcher now consistently uses the formula to claim his smelter will provide a total of 25,000 new jobs.

Muldoon, Fletcher and the "Think Big" programme promoters are, of course, in the happy position of knowing that critics cannot disprove their arguments.

Dispute them, yes. But no one (including the Government) can say with precision what effect the projects will have economically and socially if they all go ahead.

Certainly, the impact will be significant, as this series has attempted to illustrate.

But accurate prediction is impossible. Changing national and international circumstances could alter an individual project or the programme itself almost overnight.

With that possibility in mind, should New Zealand be punting all its money on a handful of high-cost, high-risk projects with no clear-cut bottom-line?

Thanks for almost telling us, Barry

THE art of passing the buck has reached a high peak in ministerial circles. Unlike the business world, the Cabinet routine is to pass it down the line instead of up.

When Prime Minister Rob Muldoon proclaimed the "Think Big" programme would provide 160,000 jobs at decade's end, *NBR* contacted his office to find out the basis of the figure.

Muldoon, we were told, got the figure from Minister of Labour, Jim Bolger. Off to his office.

Bolger, we were told, got the figure from Energy Minister Bill Birch. Off to his office.

Birch, we were told, was not available. But his second-in-command, Under-Secretary Barry Brill had the figure. Off to his office.

Brill told us he got the figure from a confidential Treasury report prepared for the Government and, sorry, we couldn't have a copy.

But he was prepared to tell us the formula used to arrive at the flow-on employment effect. We are thus beholden to Brill for our knowledge of the multiplier analysis. We still haven't seen the Treasury formula.